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NEW ISSUE-BOOK-ENTRY-ONLY

Ratings: S&P: “Applied For” (Insured)
“Applied For” (Underlying)

(See “BOND INSURANCE”, “BOND INSURANCE RISK FACTORS” and “RATING” herein)

PRELIMINARY OFFICIAL STATEMENT

February 8, 2018

Interest on the Bonds is not excludable from gross income for federal tax purposes under existing law. (See “FEDERAL INCOME TAX TREATMENT OF THE BONDS” herein.)

JOSHUA TYPE A ECONOMIC DEVELOPMENT CORPORATION
(A political subdivision of the State of Texas located in Johnson County, Texas)
\$1,945,000*

SALES TAX REVENUE BONDS, TAXABLE SERIES 2018

Dated: March 1, 2018

Due: August 1, as shown on page ii

The \$1,945,000* Sales Tax Revenue Bonds, Taxable Series 2018 (the “Bonds”) are special obligations of the Joshua Type A Economic Development Corporation (the “Corporation” or the “Issuer”). The Bonds are issued pursuant to a bond resolution (the “Resolution”) to be adopted by the Board of Directors of the Corporation (the “Board”) on February 15, 2018, and in accordance with certain provisions of the Development Corporation Act, currently codified at Chapters 501 and 504, Texas Local Government Code, as amended (previously codified as Article 5190.6, Texas Revised Civil Statutes Annotated, as amended) (collectively, the “Act”). The Bonds, together with any Additional Parity Obligations, as defined herein, hereafter issued, are payable from and secured by a lien on and pledge of the Pledged Revenues, as defined herein, which include the receipts from a ½ of 1% additional sales and use tax collected within the boundaries of the City of Joshua, Texas (the “City”) for the benefit of the Corporation. **THE BONDS DO NOT CONSTITUTE OBLIGATIONS OF THE STATE OF TEXAS, THE CITY, JOHNSON COUNTY, ANY AGENCY OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF TEXAS AND NEITHER THE FULL FAITH, THE CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS, THE CITY, JOHNSON COUNTY, ANY AGENCY OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED AS SECURITY FOR THE PAYMENT OF THE BONDS. THE CORPORATION HAS NO AD VALOREM TAXING AUTHORITY.** (See “THE BONDS – Security for Payment”, “SECURITY FOR THE BONDS” and “THE SALES TAX – Investor Considerations” herein.)

Interest on the Bonds will accrue from March 1, 2018 (the “Dated Date”), as shown above and will be payable initially on August 1, 2018, and on each February 1 and August 1 thereafter until maturity or prior redemption. Interest will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository (the “Securities Depository”). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof within a maturity. Purchasers of the Bonds (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by UMB Bank, N.A., Austin, Texas, as initial Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See “BOOK-ENTRY-ONLY SYSTEM” herein.)

Proceeds from the sale of the Bonds will be used for the purpose of (i) the acquisition, renovation, and improvement of three or more parcels of land located within the City to further the development of a shopping center and related commercial facilities and (ii) paying the costs of issuance of the Bonds.

The Bonds maturing on and after February 1, 2028, are subject to optional redemption prior to maturity on February 1, 2027, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or integral multiples thereof, at the redemption price of par plus accrued interest to the redemption date. (See “THE BONDS – Redemption Provisions” herein.)

The Corporation has made application to municipal bond insurance companies to have the payment of the principal of and interest on the Bonds insured by a municipal bond insurance policy and will consider the purchase of such insurance after an analysis of the bids from such companies has been made. See “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS” herein.

STATED MATURITY SCHEDULE

(See page ii)

The Bonds are offered for delivery, when issued and received by the initial purchaser named below (the “Underwriter”) subject to approval of legality by the Attorney General of the State of Texas and Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. Certain matters will be passed upon for the Underwriter by its counsel, Petruska & Associates, A Professional Limited Liability Company. The Bonds are expected to be available for delivery through DTC on or about March 15, 2018.

HILLTOP SECURITIES

*Preliminary, subject to change.

STATED MATURITY SCHEDULE*

Base CUSIP (to be assigned)⁽¹⁾

Stated Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix ⁽¹⁾	Stated Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix ⁽¹⁾
2019	\$ 60,000				2029	\$ 95,000			
2020	60,000				2030	100,000			
2021	65,000				2031	105,000			
2022	70,000				2032	110,000			
2023	70,000				2033	115,000			
2024	75,000				2034	125,000			
2025	80,000				2035	130,000			
2026	85,000				2036	135,000			
2027	85,000				2037	140,000			
2028	90,000				2038	150,000			

(Interest to accrue from the Dated Date)

The Bonds maturing on and after February 1, 2028, are subject to optional redemption prior to maturity on February 1, 2027, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or integral multiples thereof, at the redemption price of par plus accrued interest to the redemption date. (See “THE BONDS – Redemption Provisions” herein.)

⁽¹⁾ CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Corporation, the City, the Financial Advisor or the Underwriter is responsible for the selection or the correctness of the CUSIP numbers set forth herein.

* Preliminary, subject to change.

JOSHUA TYPE A ECONOMIC DEVELOPMENT CORPORATION
101 South Main Street
Joshua, Texas 76058
(817) 558-7447

BOARD OF DIRECTORS

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Daron M. Beck	President	2019
John Mauldin	Vice President	2019
Linda Gilmore Childers	Member	2018
Natalie Russell	Member	2018
David Morgan	Member	2019
Jeffrey Lee Jones	Member	2018
Richard Vandergriff	Member	2019

CITY COUNCIL

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Joe Hollarn	Mayor	2019
Jerry Moore	Mayor Pro-Tem	2020
Kim Henderson	Councilmember, Place 1	2019
Mike Kidd	Councilmember, Place 2	2020
Sharlotta Connally	Councilmember, Place 3	2019
Brent Gibson	Councilmember, Place 4	2018
Scott Kimble	Councilmember, Place 6	2018

ADMINISTRATION

<u>Name</u>	<u>Position</u>	<u>Length of Service With the City</u>
Josh Jones	City Manager/EDC Executive Director	3 years
Joanna McClenny	Director of Finance/EDC Treasurer	10 years
Lisa Dawn Cabrera	City Secretary/EDC Secretary	2 years

CONSULTANTS AND ADVISORS

Bond Counsel	Norton Rose Fulbright US LLP San Antonio, Texas
Financial Advisor	SAMCO Capital Markets, Inc. San Antonio, Texas
Certified Public Accountants	Pattillo, Brown & Hill, L.L.P. Waco, Texas

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Mr. Mark McLiney
Senior Managing Director
 Mr. Andrew Friedman
Managing Director
SAMCO Capital Markets, Inc.
 1020 Northeast Loop 410, Suite 601
 San Antonio, Texas 78209
 Telephone: (210) 832-9760
 mmcliney@samcocapital.com
 afriedman@samcocapital.com

USE OF INFORMATION IN THIS OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities Exchange Commission, this document constitutes an “Official Statement” of the Corporation with respect to the Bonds that has been “deemed final” by the Corporation as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information must not be relied upon.

Certain information set forth herein has been obtained from other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Corporation, City, Financial Advisor or the Underwriter. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or other matters described herein since the date hereof. (See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the Corporation's undertaking to provide certain information on a continuing basis.)

The Underwriter has provided the following statement for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

NONE OF THE CORPORATION, THE CITY, ITS FINANCIAL ADVISOR OR THE UNDERWRITER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY (“DTC”) OR ITS BOOK-ENTRY-ONLY SYSTEM, OR ANY POTENTIAL BOND INSURER OR ITS MUNICIPAL BOND GUARANTY POLICY AS DESCRIBED HEREIN (OR INCORPORATED BY REFERENCE) UNDER THE CAPTIONS “BOND INSURANCE” AND “BOND INSURANCE RISK FACTORS”, AS SUCH INFORMATION WAS PROVIDED BY DTC AND THE BOND INSURER, RESPECTIVELY.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THIS OFFICIAL STATEMENT CONTAINS “FORWARD-LOOKING” STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE, AND/OR ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE, AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. (See “OTHER PERTINENT INFORMATION – Forward-Looking Statements Disclaimer” herein.)

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The cover page, subsequent pages hereof and appendices attached hereto, are part of this Official Statement.

SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information and to the definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement.

The Issuer	The Joshua Type A Economic Development Corporation (the "Corporation") was formed to promote economic development within the City and the State of Texas in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, and on behalf of, the City by developing, implementing, providing and financing projects under the Development Corporation Act of 1979 and governed by Section 4A of the Act now codified at Chapters 501 and 504, Texas Local Government Code, as amended (collectively, the "Act"). The Corporation was created upon approval of a vote of the residents of the City of Joshua, Texas (the "City") and is governed by a seven-member board of directors (the "Board") appointed by the City Council. The Corporation is funded with a one half of one percent additional sales and use tax. The Corporation may finance and undertake any such project consistent with the aforementioned purposes subject to the regulations and limitations set forth in the Act and a special election held in the City on May 5, 2001. For financial reporting purposes, the Corporation is reported as if it were a part of the City's operations because it provides services entirely for the benefit of the City.
The Bonds	The Bonds are special obligations of the Corporation issued pursuant to a bond resolution (the "Resolution") to be adopted by the Board of the Corporation on February 15, 2018, in accordance with the Act. (See "THE BONDS – Authorization" herein.)
Paying Agent/ Registrar	The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. The Corporation intends to use the Book-Entry-Only System of DTC (defined herein). (See "REGISTRATION, TRANSFER AND EXCHANGE - Paying Agent/Registrar" and "BOOK-ENTRY-ONLY SYSTEM" herein.)
Redemption Provisions	The Bonds maturing on and after February 1, 2028, are subject to optional redemption prior to maturity on February 1, 2027, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or integral multiples thereof, at the redemption price of par plus accrued interest to the redemption date. (See "THE BONDS – Redemption Provisions" herein.)
Security	The Bonds are payable solely from and are secured by a lien on and pledge of certain Pledged Revenues (defined herein) which include the gross receipts from a ½ of 1% additional sales and use tax (the "Sales Tax") levied and collected within the City for the benefit of the Corporation. The Sales Tax was authorized at an election held on May 5, 2001. The total rate of all State and local sales and use taxes levied in the City is currently 8¼%. The Bonds are not obligations of the State of Texas, the City, Johnson County, any agency, or any other political subdivision and shall never be payable from ad valorem taxes. The Corporation has no ad valorem taxing authority. (See "THE BONDS – Security for Payment", "SECURITY FOR THE BONDS" and "THE SALES TAX" herein.)
Use of Proceeds	Proceeds from the sale of the Bonds will be used for the purpose of (i) the acquisition, renovation, and improvement of three or more parcels of land located within the City to further the development of a shopping center and related commercial facilities and (ii) paying the costs of issuance of the Bonds.
Bond Insurance	The Corporation has made application to municipal bond insurance companies to have the payment of the principal of and interest on the Bonds insured by a municipal bond insurance policy. (See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.)
Rating	A municipal bond rating application has been made to S&P Global Ratings ("S&P"). The Issuer currently has no underlying rating, because it has no outstanding debt. An explanation of the significance of such rating, once received, may be obtained from S&P. (See "RATING" herein.) No representation is hereby made that the Corporation will use municipal bond insurance in connection with the issuance of the Bonds. (See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.)
Book-Entry-Only System	The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), New York, New York described herein. No physical delivery of the Bonds will be made to the beneficial owners of the Bonds. Such Book-Entry-Only System may affect the method and timing of payments on the Bonds and the manner in which the Bonds may be transferred. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Taxable Obligations	Interest to be paid on the Bonds is included in the gross income of the owners thereof for federal tax purposes. (See “FEDERAL INCOME TAX TREATMENT OF THE BONDS” herein.)
Additional Bonds	Under the Resolution, additional bonds, notes or other obligations (“Additional Parity Obligations”) may be issued by the Corporation on a parity with the Bonds secured by to the pledge and lien on the receipts of the Sales Tax, subject to certain conditions, including the Pledged Revenues that were, during either the next preceding fiscal year, or any twelve (12) consecutive calendar months in the eighteen (18) months next preceding the month in which the resolution was adopted authorizing the then proposed Additional Parity Obligations, at least equal to 1.25 times the average annual principal and interest requirements of the Bonds and any Additional Parity Obligations outstanding after the issuance of the then proposed Additional Parity Obligations. (See “SECURITY FOR THE BONDS - Additional Parity Obligations” herein.)
Delivery	When issued, anticipated on or about March 15, 2018.
Legality	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel.

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OFFICIAL STATEMENT
relating to

\$1,945,000*

JOSHUA TYPE A ECONOMIC DEVELOPMENT CORPORATION
SALES TAX REVENUE BONDS, TAXABLE SERIES 2018

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and Appendices hereto, is to set forth information regarding the issuance by the Joshua Type A Economic Development Corporation (the "Corporation" or the "Issuer") of its \$1,945,000* Sales Tax Revenue Bonds, Taxable Series 2018 (the "Bonds").

The Bonds are being issued pursuant to certain provisions of the Development Corporation Act, including provisions of Chapters 501 and 504, Texas Local Government Code, as amended (the "Act"), and pursuant to the provisions of a resolution (the "Resolution") to be adopted by the Board of Directors of the Corporation (the "Board") on February 15, 2018. All capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Resolution. (See "Appendix D - Selected Provisions of the Resolution" herein.)

The creation of the Corporation was approved and ratified by the City Council of the City of Joshua, Texas (the "City") pursuant to an ordinance adopted on January 8, 2018, to benefit and accomplish the public purposes of, and to act on behalf of, the City as prescribed by the Act after an election called on March 13, 2001, and approved by the voters of the City on May 5, 2001, to authorize a one half of one percent (1/2%) additional sales and use tax to be levied within the City (the "Sales Tax") which, pursuant to the Act, may be pledged to secure obligations of the Corporation. The Sales Tax, together with all other State and municipal sales and use taxes levied within the City, produces a total sales and use tax rate of 8¼% percent, the maximum rate currently permitted by State (defined below) law. (See "THE SALES TAX")

The purpose of the Corporation is to promote and provide for economic development within the City and the State of Texas (the "State") in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, for, and on behalf of the City by developing, implementing, providing, and financing projects under the Act. The City Council of the City appoints the members of the Board. The City is required to approve certain actions of the Corporation, including the issuance of the Bonds by the Corporation. (See "THE CORPORATION" herein.)

There follows in this Official Statement brief descriptions of the Bonds and their security, the Corporation, the City and its economy, and the Resolution. **ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE ONLY SUMMARIES AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.** Copies of such documents may be obtained from the Corporation.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement will be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Markets Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the Corporation's undertaking to provide certain information on a continuing basis.

All financial and other information presented in this Official Statement has been provided by the Corporation and the City from their records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the Corporation. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future. (See "OTHER PERTINENT INFORMATION - Forward-Looking Statements Disclaimer" herein.).

SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds

Par Amount	\$ _____
[Net] Original Issue Reoffering Premium	_____
Accrued Interest	_____
Total Sources of Funds	\$ _____

Uses of Funds

Deposit to Project Fund	\$ _____
Cost of Issuance (including insurance premium, if any)	_____
Underwriter's Discount	_____
Accrued Interest Deposit to Bond Fund	_____
Total Uses of Funds	\$ _____

*Preliminary, subject to change.

THE BONDS

General

The Bonds will be dated March 1, 2018 (the "Dated Date"), and interest will be payable on the Bonds and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will bear interest from the Dated Date. The Bonds will mature on the dates and in the principal amounts set forth on page ii of this Official Statement. Interest on the Bonds is payable initially on August 1, 2018, and on each February 1 and August 1 thereafter until maturity or prior redemption. The Bonds will be issued only as fully registered bonds in denominations of \$5,000 principal amount or any integral multiple thereof within a stated maturity.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a more complete description of such system.)

Authorization

The Bonds are special obligations of the Corporation issued pursuant to the Resolution and in accordance with the Constitution and the general laws of the State, including the Act.

Security for Payment

The Bonds, together with any Additional Parity Obligations (as defined below) hereafter issued, are payable solely from and are secured by a lien on the Pledged Revenues (defined below) which include the gross receipts from a one half of one percent additional sales and use tax (the "Sales Tax") levied and collected within the City for the benefit of the Corporation. The Sales Tax was authorized at an election called on March 13, 2001, and approved by the voters of the City on May 5, 2001. The total rate of all State and local sales and use taxes levied in the City is currently 8¼%. The Bonds are not obligations of the State, the City, Johnson County, any agency or any other political subdivision and shall never be payable from ad valorem taxes. The Corporation has no ad valorem taxing authority.

Use of Bond Proceeds

Proceeds from the sale of the Bonds will be used for the purpose of (i) the acquisition, renovation, and improvement of three or more parcels of land located within the City to further the development of a shopping center and related commercial facilities and (ii) paying the costs of issuance of the Bonds (the "Projects").

The Corporation intends to avail itself of certain provisions of the Act, including Section 504.158 and Section 501.073(a), to undertake the Projects. The City Council adopted a resolution authorizing the Projects after two separate readings held on January 8, 2018, and January 18, 2018, respectively, and approved the Projects and the expenditures related thereto, while also confirming the City's authorization under the Act to undertake the Projects.

Redemption Provisions

Optional Redemption: The Issuer reserves the right, at its option, to redeem the Bonds maturing on and after February 1, 2028, on February 1, 2027, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and, if within a stated maturity, selected at random and by lot by the Paying Agent/Registrar (defined herein), at the redemption price of par plus accrued interest to the date fixed for redemption.

Not less than thirty (30) days prior to a redemption date for the Bonds, the Corporation shall cause a notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owners of each Bond or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing of such notice. ANY NOTICE OF REDEMPTION SO MAILED TO THE REGISTERED OWNERS WILL BE DEEMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE OF THE REGISTERED OWNERS FAILED TO RECEIVE SUCH NOTICE. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Bonds or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Bonds or portion thereof which are to be redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

In addition to the manner of providing notice of redemption of Bonds as described above, the Paying Agent/Registrar shall give notice of redemption of Bonds by United States mail, first-class, postage prepaid, at least thirty (30) days prior to a redemption date to the Municipal Securities Rulemaking Board (the "MSRB").

The Paying Agent/Registrar and the Issuer, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bonds or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the Issuer will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Resolution and will not be conducted by the Issuer or the Paying Agent/Registrar. Neither the Issuer nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Payment Record

The Corporation has no outstanding debt.

Legality

The Bonds are offered when, as and if issued, subject to the approval by the Attorney General of the State and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, San Antonio, Texas (“Bond Counsel”). A form of the legal opinion of Bond Counsel appears in Appendix C attached hereto.

Amendments

In the Resolution, the Issuer has reserved the right to amend or supplement the Resolution without the consent of any holder for the purpose of curing any ambiguity, inconsistency, or formal defect or omission therein. In addition, the Corporation may, with the written consent of the Owners of the Bonds holding a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Resolution; provided that, without the consent of all Owners of outstanding Bonds, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required to be held by Owners for consent to any such amendment, addition, or rescission.

Defeasance

The Resolution provides that the Corporation may discharge its obligations to the registered owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current State law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) for obligations of the Corporation payable from revenues or from the Sales Tax or both, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the Corporation adopts or approves the proceedings authorizing the issuance of refunding obligations, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the Corporation adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Resolution. Upon making such deposit in the manner described, such Bonds shall no longer be deemed outstanding obligations secured by the Resolution, but will be payable only from the funds and government obligations deposited into escrow and will not be considered debt of the Corporation for purposes of taxation or applying any limitation on the Corporation’s ability to issue debt for any other purpose. Furthermore, all rights of the Corporation to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the Corporation: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Bondholders’ Remedies

The Resolution establishes the following as events of default with respect to the Bonds: (i) the failure to make payment of the principal of or interest on any of the Bonds when the same becomes due and payable; or (ii) default in the performance or observance of any other covenant, agreement or obligation of the Corporation, the failure to perform which materially and adversely affects the rights of the Owners, including but not limited to, their prospect or ability to be repaid in accordance with the Resolution, and the continuation thereof for a period of 30 days after notice of such default is given by any Owner to the Corporation. Except for the remedy of mandamus to enforce the Corporation’s covenants and obligations under the Resolution, the Resolution does not establish any other remedies with respect to events of default. Notwithstanding the foregoing, the provider of a municipal bond insurance policy relating to the Bonds, if any (identified herein as the “Bond Insurer”) shall have the right to direct all remedies upon an event of default, and the Bond Insurer will be recognized as the registered owner of the Bonds for the purposes of exercising all rights and privileges available to the Bondholders. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. Under State law there is no right to the acceleration of maturity of the Bonds upon the failure of the Corporation to observe any covenant under the Resolution. Although a registered owner of Bonds could presumably obtain a judgment against the Corporation if a default occurred in the payment of the principal of or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the Corporation other than the Pledged Revenues. Such registered owner’s only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the Corporation to observe or perform any of its obligations under the Resolution. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The Resolution does not provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the Corporation to perform in accordance with the terms of the Resolution, or upon any other condition. Furthermore, the Corporation is eligible to seek relief from its creditors under the U.S. Bankruptcy Code. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Resolution and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because the Corporation is a component unit of the City, an analysis of relevant sovereign immunity municipal case law is described below. *Tooke*, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the “Proprietary-Governmental Dichotomy”). Governmental functions are those that are enjoined on a municipality by

law and are given by the State as a part of the State's sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of municipality.

In *Wasson Interests, Ltd., v. City of Jacksonville, Texas*, 489 S.W.3d 427 (Tex. 2016) ("Wasson") the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people'" and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources". While the Court recognized that the distinction between government and proprietary functions is not clear, the Wasson opinion held that the Proprietary-Governmental Dichotomy applies in contract-claims context. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the statutory guidance and definitions found in the Texas Civil Practice and Remedies Code.

Notwithstanding the foregoing new case law issued by the Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt or debt issued by a special purpose entity in which a city derives a benefit). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality or a corporation.

Furthermore, the Corporation is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the Corporation avail itself of Chapter 9 protection from creditors, the ability to enforce the above-mentioned remedies would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court), and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Resolution and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

THE CORPORATION

The Corporation is a public instrumentality and non-profit corporation created by and acting on behalf of the City under the authority of the Act. The Corporation is organized for the purpose of benefiting and accomplishing public purposes of the City by promoting, assisting and enhancing the community as it pertains to economic development activities within the City.

The affairs of the Corporation are managed by a seven (7) member Board appointed by the City Council, all of whom are residents of the City. At least three (3) members of the Board shall be persons who are not members of the City Council and who are not employees or officers of the City. No more than two (2) members of the Board shall be members of the City Council, exclusive of the Corporation's managerial positions. The Corporation operates under its Articles of Incorporation (the "Articles"), dated April 2, 2002, as well as under the general powers and duties as defined in the Act and the Nonprofit Corporation Act (as defined in the Articles). All voting rights are vested solely in the Board. The Corporation's By-laws govern the internal affairs of the Corporation and provide the Board meet at such times and places as shall be designated from time to time by the Board, and such meetings are governed by the Texas Open Meetings Act, Chapter 551, Texas Government Code, as amended. The Directors serve without compensation.

The fiscal year of the Corporation runs concurrently with the City's fiscal year, beginning the first day of October and ending on the last day of September each year. At least ninety (90) days prior to the commencement of each fiscal year of the Corporation, the Board must adopt a proposed budget of expected revenues and expenditures. The budget does not become effective until the same has been approved by a majority vote of the City Council.

All proceeds from the issuance of debt instruments issued by the Corporation shall be deposited and invested as provided in the resolution, order, indenture or other documents authorizing their issuance. All other money of the Corporation shall be deposited, secured and/or invested in the manner provided for the deposit, security and/or investment of the public funds of the Corporation. The Corporation's financial statements must be audited at least once each fiscal year by an outside independent certified public accounting firm selected by the Corporation and approved by the City Council. Currently, the Corporation does not prepare separate audited financial statements, but its financial information is included as a component unit in the City's annual audited financial statements in accordance with the relevant Government Accounting Standard Board's Statements.

Any bonds issued by the Corporation, including the Bonds and any refunding bonds, shall be issued (1) upon approval of the City Council and (2) in accordance with the applicable provisions of the Act that are necessary and appropriate to the fulfillment of the public purposes of the Corporation.

The Corporation is prohibited to enter into any loan, lease, trust, or other agreement, the effect of which would grant, convey, transfer, mortgage, encumber, pledge, or assign a security interest or any other interest in any property owned by the City.

THE CITY

The Corporation is reported as if it were a part of the City's operations because it provides services entirely for the City. The City currently consists of 6.4 square miles and is located 30 miles south of downtown Fort Worth, Texas. The City was incorporated in 1955 and adopted a Home Rule Charter pursuant to a successful election held within the City on August 8, 1988. The City operates under a Council/City Manager form of government. The City Council consists of seven members, including a Mayor and six Councilmembers elected by the City's residents.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is UMB Bank, N.A., Austin, Texas (the "Paying Agent/Registrar"). In the Resolution, the Issuer retains the right to replace the Paying Agent/Registrar. If the paying agent/registrar is replaced by the Issuer, the new paying agent/registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor paying agent/registrar, selected at the sole discretion of the Issuer, shall be a commercial bank, trust company, financial institution or other entity qualified and authorized to serve in such capacity and perform the duties and services of Paying Agent/Registrar. Upon a change in the Paying Agent/Registrar for the Bonds, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class postage prepaid.

The Bonds will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar to Cede & Co. Interest on the Bonds is payable by check or draft mailed on or before each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the registration books maintained by the Paying Agent/Registrar on the Record Date (as defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner to whom interest is to be paid, provided, however, that such person shall bear all risk and expense of such other arrangements. Principal of the Bonds and amounts due at maturity or upon prior redemption will be payable only upon presentation of such Bonds at the designated corporate trust office of the Paying Agent/Registrar at maturity or upon prior redemption; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein.

In the event the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday or day when banking institutions located in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or day when banking institutions are so authorized to close. Payment on such later day will not increase the amount of interest due and will have the same force and effect as if made on the original date payment was due.

Record Date

The record date ("Record Date") for interest payable to the registered owner of a Bond on any interest payment date means the fifteenth day of the month next preceding such interest payment date.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Future Registration

In the event the Bonds are not in the Book-Entry-Only System, Bond certificates will be printed and delivered to the registered owners and thereafter the Bonds may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Bond or Bonds surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds.)

Limitation on Transfer or Exchange of Bonds

Neither the Issuer nor the Paying Agent/Registrar shall be required (1) to make any transfer or exchange during a period beginning forty-five (45) days prior to the date fixed for redemption or (2) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within 30 calendar days; provided, however, such limitation shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Bond.

Replacement Bonds

In the Resolution, provision is made for the replacement of mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or the receipt of satisfactory evidence of destruction, loss, or theft, and the receipt by the Issuer and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Corporation, the City, the Financial Advisor and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The Corporation, the City, and the Underwriter cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or other notices given pursuant to the Resolution, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or notices given pursuant to the Resolution, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate in the aggregate principal amount of each maturity will be issued and deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Direct Participants and Indirect Participants are referred to collectively as "Participants". DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Corporation as soon as possible after the Record Date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and redemption payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Corporation or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant

and not of DTC nor its nominee, the Paying Agent/Registrar, or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Corporation or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Corporation or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered. (See "REGISTRATION, TRANSFER, AND EXCHANGE" herein.)

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but neither the Issuer, the City, nor the Underwriter takes responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Resolution will be given only to DTC.

SECURITY FOR THE BONDS

Pledge Under the Resolution

In the Resolution, the Corporation covenants and agrees that the Pledged Revenues, with the exception of those in excess of the amounts required for the payment and security of the Bonds and any Additional Parity Obligations (together, the "Parity Revenue Obligations"), are irrevocably pledged to the payments of and security for the Parity Revenue Obligations, including the establishment and maintenance of the special funds created and established in the Resolution and any resolutions authorizing Additional Parity Obligations. Under the Resolution, the Pledged Revenues consist of (i) the Gross Sales Tax Revenues (defined below) from time to time deposited or owing to the Pledged Fund (defined below), and (ii) such other money, income, revenues or other property which the Corporation may expressly and specifically pledge to the payment of Parity Revenue Obligations.

The Resolution defines "Gross Sales Tax Revenues" as all of the revenues or receipts due or owing to, or collected or received by or on behalf of the Corporation by the City or otherwise pursuant to the Act and the election held May 5, 2001, less any amounts due and owed to the Comptroller of Public Accounts of the State of Texas as charges for the collection of the Sales Tax (defined below) or retention by the Comptroller for refunds and to redeem dishonored checks and drafts, to the extent such charges and retention are authorized or required by law.

The Resolution defines "Sales Tax" as the additional sales and use tax authorized under the Act, approved at an election held on May 5, 2001, and the effective date for the imposition and application of such Sales Tax within the corporate limits of the City by the Comptroller of Public Accounts of the State of Texas being October 1, 2001, together with any increases in the rate of such Sales Tax authorized and provided by law.

UNDER THE RESOLUTION, THE BONDS AND ANY ADDITIONAL PARITY OBLIGATIONS, INCLUDING INTEREST PAYABLE THEREON, CONSTITUTE OBLIGATIONS OF THE CORPORATION, PAYABLE SOLELY FROM, AND SECURED BY A LIEN ON AND PLEDGE OF THE PLEDGED REVENUES AND NOT FROM ANY OTHER REVENUES, PROPERTIES OR INCOME OF THE CORPORATION. THE BONDS DO NOT CONSTITUTE A DEBT OR OBLIGATION OF THE STATE OF TEXAS, OR OF THE CITY, JOHNSON COUNTY OR ANY AGENCY, POLITICAL CORPORATION OR SUBDIVISION THEREOF. NEITHER THE FULL FAITH AND CREDIT OF THE ISSUER, THE STATE, JOHNSON COUNTY, THE CITY NOR ANY OTHER AGENCY, POLITICAL CORPORATION OR SUBDIVISION OF THE STATE HAS BEEN PLEDGED FOR THE PAYMENT OF THE BONDS, EXCEPT AS DESCRIBED HEREIN. THE CORPORATION HAS NO AD VALOREM TAXING AUTHORITY.

The Pledged Revenue Fund

Under the terms of the Act and a financing and use agreement (the "Financing/Use Agreement") between the City and the Corporation that relates to the collection, handling and transfer of sales tax revenue due to the Corporation, the pledged Sales Tax revenues are collected by the State Comptroller of Public Accounts and remitted periodically to the City for the benefit of the Corporation shall be deposited by the City as received to the credit of a fund or account of the Corporation to be known as the "Sales Tax Revenue Fund." By the terms of the Financing/Use Agreement, commingled sales tax receipts of the City and the Corporation shall be deposited into the City's depository bank (the "Depository Bank"). Immediately upon receipt of the sales tax receipts from the Comptroller, the City Manager shall determine and certify the share of sales tax revenues belonging to the Corporation and provide the Depository Bank with such certification. Not later than the close of the next business day, the Depository Bank, in reliance upon the City Manager's certification, shall deposit the Corporation's amount of Sales Tax receipts, which constitute the Gross Sales Tax Revenues, in immediately available funds for deposit into the Pledged Revenue Fund.

As explained below under "SECURITY FOR THE BONDS - Flow of Funds," the Pledged Sales Tax revenues held in the Pledged Revenue Fund are first to be used to make payments to the Bond Fund in amounts equal to one hundred percent (100%) of the interest on and principal of the Parity Revenue Obligations then due and payable.

General Covenant Regarding the Sales Tax

The Municipal Sales and Use Tax Act (Chapter 321, Texas Tax Code, as amended) provides that the Sales Tax does not apply to the sale of a taxable item unless the item is also taxable under the Texas Limited Sales, Excise and Use Tax Act (Chapter 151, Texas Tax Code, as amended). The Sales Tax is therefore subject to broadening and reduction in the base against which it is levied by action of the State Legislature without the consent of the City or the Corporation. (See "THE SALES TAX – Investor Considerations" herein.)

In the Resolution, the Corporation covenants and agrees that, while any Bonds are outstanding, it will take all legal means and actions permissible to cause the Sales Tax, at its current rate (1/2 of 1%), to be levied and collected continuously throughout the boundaries of the City, as such boundaries may be changed from time to time, in the manner and to the maximum extent legally permitted and to cause no reduction, abatement or exemption in the Sales Tax until all the Bonds have been paid in full or until they are lawfully defeased in accordance with the Resolution. The Corporation also covenants and agrees that if, subsequent to the issuance of the Bonds, the City is authorized by applicable law to impose and levy the Sales Tax on any items or transactions that are not subject to the Sales Tax on the date the Resolution was adopted, then the Corporation will use its best efforts to cause the City to take such action as may be required by applicable law to subject such items or transactions to the Sales Tax.

Flow of Funds

All Pledged Revenues shall be deposited and transferred as received to the Pledged Revenue Fund. Moneys deposited in the Pledged Revenue Fund shall be pledged and appropriated to the following uses, in the order of priority shown:

First. To the payment, without priority, of all amounts required to be deposited into the Debt Service Fund for the payment of principal and interest on the Bonds and any Additional Parity Obligations, as they become due and payable;

Second. To the payment of the amounts, if any, required to be deposited in the Reserve Fund, as further described below, to establish and maintain the Required Reserve (defined herein) and any reserve fund surety policy, in accordance with the provisions of the Resolution and any resolution of the Board adopted in the future concerning the issuance of Parity Revenue Obligations;

Third. To any fund or account held at any place or places, or to any payee, required by any other resolution of the Board authorizing the issuance of obligations or the creation of debt of the Issuer having a lien on all or any portion of the revenues constituting Pledged Revenues, which lien is subordinate and inferior to the lien on and pledge of Pledged Revenues created herein for benefit of the Parity Revenue Obligations;

Fourth. To the payment of the amounts, required to be deposited in a subordinate reserve fund to establish and maintain any required reserve and any reserve fund surety policy, in accordance with the provisions of a resolution prospectively adopted concerning the issuance of subordinate obligations having a lien on the Pledged Revenues subordinate and inferior to the lien and pledge securing repayment of the Parity Revenue Obligations;

Fifth. To the payment of any other outstanding debt of the Corporation; and

Sixth. For any lawful purpose to benefit the Corporation, not inconsistent with the Act, including the payment of capital improvements.

Reserve Fund Requirements

The Resolution requires the Corporation to establish and maintain the Reserve Fund for the Parity Revenue Obligations (including the Bonds) in the event funds on deposit in the Debt Service Fund are insufficient for such purpose. The Corporation shall deposit and credit to the Reserve Fund amounts required to maintain the balance in the Reserve Fund in an amount equal to the maximum annual debt service requirements of the outstanding Parity Revenue Obligations (the "Required Reserve"). The maximum annual debt service requirements of the Bonds shall be calculated by the Corporation on the date of issuance of the Bonds and on each October 1 thereafter, and the Required Reserve to be maintained in the Reserve Fund after each such calculation shall be the amount determined by such calculation. When and for so long as the cash, investments and reserve fund surety policy in the Reserve Fund equal the Required Reserve, no deposits need be made to the credit of the Reserve Fund. If the Reserve Fund at any time contains less than the Required Reserve, the Corporation covenants and agrees that the Corporation shall cure the deficiency in the Reserve Fund by making deposits to such Fund from the Pledged Revenues, in the order of priority described above, by monthly deposits and credits in amounts equal to not less than 1/60th of the Required Reserve with any such deficiency payments being made on or before the last day of each month until the Required Reserve has been fully restored; provided, however, that no such deposits shall be made into the Reserve Fund during any six-month period beginning on August 1 and February 1 until there has been deposited into the Debt Service Fund the full amount required to be deposited therein by the next following August 1 and February 1, as the case may be. In addition, in the event that a portion of the Required Reserve is represented by a reserve fund surety policy (see "Surety Policy" below), the Required Reserve and deposits to the Reserve Fund shall take into account such value of the reserve fund surety policy. The Corporation has further covenanted and agreed that, subject only to the prior deposits and credits to be made to the Debt Service Fund, the Pledged Revenues shall be applied, appropriated and used to establish and maintain the Required Reserve, including by paying payments under a reserve fund surety policy when due, and any reserve established for the benefit of any issue or series of Additional Parity Obligations and to cure any deficiency in such amounts as required by the terms of this Resolution and any other resolution pertaining to the issuance of Additional Parity Obligations.

Notwithstanding anything to the contrary contained in the Resolution, as herein described, the requirements described above to fund the Reserve Fund in the amount of the Required Reserve shall be suspended for such time as the Pledged Revenues for each fiscal year are equal to at least 110% of the maximum annual debt service requirements. In the event that the Pledged Revenues for any two consecutive Fiscal Years are less than 110% (unless such percentage is below 100% of the maximum annual debt service requirements in any fiscal year, in which case the herein specified requirements to restore the Required Reserve will commence after such fiscal year) of the maximum annual debt service requirements, the Corporation will be required to commence making the deposits to fund the Reserve Fund as provided above, and to continue making such deposits until the earlier of (i) such time as the Reserve Fund contains the Required Reserve or (ii) the Pledged Revenues for a fiscal year have been equal to not less than 110% of the maximum annual debt service requirements.

Surety Policy

In the Resolution the Corporation has retained the option, to be exercised at its discretion in the future, to fund all or part of the Required Reserve by purchasing an insurance policy that will unconditionally obligate the insurance company or other entity to pay all, or any part thereof, of the Required Reserve in the event funds on deposit in the referenced account are not sufficient to pay the debt service requirements on the Parity Revenue Obligations. In the event an insurance policy issued to satisfy all or part of the Corporation's obligation with respect to the Required Reserve causes the amount then on deposit in the Required Reserve to exceed the Required Reserve, the Corporation may transfer such excess amount to any fund or account established for the payment of or security for the Parity Revenue Obligations or use such excess amount for any lawful purpose now or hereafter provided by law; provided, however, to the extent that such excess amount represents bond proceeds, then such amount must be used to satisfy the Required Reserve. No representation is hereby made that the Corporation will use such surety policy.

Additional Parity Obligations

In addition to the right to issue obligations of inferior lien (as further described in the Resolution), the Corporation reserves the right to issue Additional Parity Obligations which, when duly authorized and issued in compliance with law and the terms and conditions hereinafter appearing, shall be on a parity with the Bonds herein authorized, payable from and equally and ratably secured by a lien on and pledge of the Pledged Revenues and the Bonds and Additional Parity Obligations shall in all respects be of equal dignity. The Additional Parity Obligations may be issued in one or more installments, provided, however, that none shall be issued unless and until the following conditions have been met:

(i) The Corporation is not then in default as to any covenant, condition or obligation prescribed in a resolution authorizing the issuance of the outstanding Parity Revenue Obligations, as attested to in a Certificate of the Corporation's Treasurer or Executive Director.

(ii) Each of the funds created for the payment, security and benefit of the Parity Revenue Obligations including the Required Reserve as attested to in a certificate of the Corporation's Treasurer or Executive Director contains the amount of money then required to be on deposit therein.

(iii) The Corporation has secured from the Treasurer or the Executive Director of the Corporation a certificate or report reflecting that for the most recently available audited financial statements for the fiscal year next preceding the dated date of the proposed Additional Parity Obligations, or a consecutive twelve (12) month period out of the eighteen (18) month period next preceding the month in which the resolution authorizing the proposed Additional Parity Obligations is adopted, the Gross Sales Tax Revenues were equal to at least 1.25 times the combined average annual principal and interest requirements on all Parity Revenue Obligations to be outstanding after the issuance of the proposed Additional Parity Obligations; provided, that, in the event of an increase in the rate of the Sales Tax that becomes effective prior to the date of the resolution authorizing the issuance of the Additional Parity Obligations, such certificate or report shall calculate the Gross Sales Tax Revenues for the calculation period as if such increased rate were in effect during such period.

(iv) The Additional Parity Obligations are made to mature on an interest payment date of each year in which they are scheduled to mature.

(v) The resolution authorizing the Additional Parity Obligations provides that: (i) the Bond Fund be augmented by amounts adequate to accumulate the sum required to pay the principal and interest on such obligations as the same shall become due; and (ii) the amount to be maintained in the Reserve Fund shall be increased to an amount not less than the Required Reserve calculated to include the debt service of the proposed additional obligations; and (iii) any additional amount required to be maintained in the Reserve Fund shall be deposited therein upon delivery of such Additional Parity Obligations or in not more than sixty (60) months from such date.

THE RESOLUTION DOES NOT PROVIDE FOR THE ACCELERATION OF THE BONDS IN THE EVENT OF A DEFAULT. (See "APPENDIX D - SELECTED PROVISIONS OF THE RESOLUTION" herein.)

THE SALES TAX

The Sales Tax is a ½ of 1% limited sales and use tax imposed on all taxable transactions within the City as approved at an election called on March 13, 2001, and approved by the voters on May 5, 2001. The Texas Tax Code prohibits a municipality from increasing its sales and use tax or adopting an additional sales and use tax if, as a result of such adoption or increase, the combined rate of all sales and use taxes imposed by the municipality and all other political subdivisions of the State having territory in the municipality would exceed two percent (2%) at any location in the municipality. The total rate of all State (6¼%) and local (2%) sales and use taxes levied in the City is currently 8¼%. The City currently levies another sales and use tax for general City purposes of 1% in accordance with State law and is restricted by current law. The Sales Tax is authorized to be levied and collected against the receipts from the sale at retail of taxable items within the City. The Sales Tax also is an excise tax on the use, storage or other consumption of taxable tangible personal property purchased, leased or rented from a retailer within the City. The imposition, computation, administration, governance, abolition and use of the Sales Tax is governed by the Texas Limited Sales, Excise, and Use Tax Act except to the extent that there is conflict with the Act, in which case the provisions of the Act control as to the Bonds, and by the Municipal Sales and Use Tax Act, and reference is made thereto for a more complete description of the Sales Tax.

In general, as applied to the Sales Tax, a taxable item includes any tangible personal property and certain taxable services. "Taxable services" include certain amusement services, personal services, cable television services, motor vehicle parking and storage services, the repair, remodel, maintenance and restoration of most tangible personal property, certain telecommunication services, credit reporting services, debt collection services, insurance services, information services, real property services, data processing services, real property repair and remodeling, security services, telephone answering services, Internet access services, and distribution utility of transmission or delivery of service directly to an electricity end-use customer whose consumption of electricity is subject to taxation under Chapter 151 of the Texas Tax Code. Many items are exempted by State law from sales and use taxes, including items purchased for resale, food products (except food products which are sold for immediate consumption, e.g., by restaurants, lunch counters, etc.), health care supplies (including prescription medicines, corrective lens and

various therapeutic appliances and devices), agricultural items (if the item is to be used exclusively on a farm or ranch or in the production of agricultural products), gas and electricity purchased for residential use (unless a city has taken steps to repeal the exemption), certain telecommunications services, newspapers and magazines. In addition, items which are taxed under other State laws are generally exempted from sales taxes including the Sales Tax. These items include certain natural resources, cement, motor vehicles, and insurance premiums. Alcohol and tobacco products are taxed under both State alcohol and tobacco taxes as well as through the Sales Tax except that the following are exempt from the Sales Tax: mixed beverages, ice or nonalcoholic beverages that are subject to State alcohol taxes (there is no local component of the State alcohol taxes and, thus, the City would not receive any revenue with respect to such sales) and alcoholic beverages when sold to the holder of a private club registration permit under certain circumstances. In addition, purchases made by various exempt organizations are not subject to the sales and use taxes. Such organizations include the federal and state governments, political subdivisions, Indian tribes, religious institutions and certain charitable organizations and non-profit corporations, senior citizen organizations, and university and college student organizations. Also, State law provides an exemption from sales taxes on items purchased under certain bids or written contracts in effect when the legislation authorizing such tax (or the increase in the rate thereof) is enacted, up to a maximum of three years. In general, a sale of a taxable item is deemed to occur within the municipality in which the sale is consummated. The tax levied on the use, storage or consumption of tangible personal property is considered to be consummated at the location where the item is first stored, used or consumed. Thus, the use is considered to be consummated in a municipality, and the tax is levied there if the item is shipped from outside the state to a point within the municipality.

The Comptroller administers and enforces all sales tax laws and collects all sales and use taxes levied by the State, and levying counties, municipalities and other special districts having sales tax powers. Certain limited items are taxed for the benefit of the State under sales tax statutes, such as certain natural resources and other items described above, and are not subject to the sales tax base available to municipalities and counties, including the tax base against which the Sales Tax is levied. Municipalities may by local option determine to tax certain telecommunication services on the same basis as the State taxes such services (some aspects of telecommunication services, such as interstate telephone calls and broadcasts regulated by the FCC are not subject to either State or local taxation). With respect to the taxation of the residential use of gas and electricity, the State is not authorized to collect a sales tax, while municipalities, on a local option basis, may tax such use. **The City does not tax the residential use of gas and electricity.**

In recent years, several changes in the State sales tax laws have contributed to the growth of local sales tax revenues. These changes have added additional goods and services to the list of taxable items. Other items have been subjected to sales tax on an interim basis or have been taxed pursuant to legislation which includes planned phase-outs of the tax, including sales tax for tangible personal property used in manufacturing, processing, or fabrication operations with a useful life of at least six months that became totally exempt from sales tax in 1995. Subject to the right of the governing body of the City to repeal the sales tax holiday, during a three day period beginning the Friday before eight days prior to the earliest possible first day of school, articles of clothing, footwear, qualifying backpacks and school supplies with a cost less than \$100 are exempt from the sales tax as is 20% of the value of information services and data processing services. The first \$25 of a monthly charge for Internet access is exempt from sales tax (see however "THE SALES TAX – Investor Considerations" herein for a description of the state of sales taxation on Internet access), as is 20% of the value of information services and data processing services. Sales tax is due on over-the-counter drugs and medicines labeled with a national FDA drug code.

With certain exceptions, sales and use taxes in the State are collected at the point of sale and are remitted to the Comptroller by the "taxpayer" who is, generally speaking, the business that collects the tax resulting from a taxable transaction. Taxpayers owing \$500 or more sales and use tax dollars in a calendar month submit their tax collections to the Comptroller on a monthly basis; taxpayers owing less than \$500 sales and use tax dollars in a calendar month or less than \$1,500 in a calendar quarter submit their tax collections quarterly; and taxpayers owing less than \$1,500 in a calendar quarter submit their tax collections annually. Taxpayers are required to report and remit to the Comptroller by the 20th day of the month following the end of the reporting period. The reporting period for yearly filers ends each December 31; for quarterly filers, the reporting period ends at the end of each calendar quarter; and monthly filers report and remit by the 20th of each month for the previous month. The Comptroller is required by law to distribute funds to the receiving political subdivisions periodically and as promptly as feasible but not less frequently than twice during each fiscal year of the State. Historically, and at the present time, the Comptroller distributes the funds monthly with the largest payments being made quarterly in February, May, August and November. The Comptroller has initiated a direct deposit program using electronic funds transfers to expedite the distribution of monthly allocation checks. If a political subdivision desires to participate in the electronic funds transfers, it may make application to the Comptroller. Otherwise, the Comptroller mails the monthly allocation check which is typically received by the middle of the month following the month in which the taxpayer reports and remits payment on the tax. **The City does participate in this program.**

The Comptroller is responsible for enforcing the collection of sales and use taxes in the State. Under State law, the Comptroller utilizes sales tax permits, sales tax bonds and audits to encourage timely payment of sales and use taxes. Each entity selling, renting, leasing or otherwise providing taxable goods or services is required to have a sales tax permit. Permits are required for each individual location of a taxpayer and are valid for only one year, requiring an annual renewal. As a general rule, every person who applies for a sales tax permit for the first time, or who becomes delinquent in paying the sales or use tax, is required to post a bond in an amount sufficient to protect against the failure to pay taxes. The Comptroller's audit procedures include auditing the largest 2% of the sales and use tax taxpayers (who report about 65% of all sales and use tax in the State annually), each every three or four years. Other taxpayers are selected at random or upon some other basis for audits. The Comptroller also engages in taxpayer education programs and mails a report to each taxpayer before the last day of the month, quarter or year that it covers.

Once a taxpayer becomes delinquent in the payment of a sales or use tax, the Comptroller may collect the delinquent tax by using one or more of the following methods; (i) collection by an automated collection center or local field office, (ii) estimating the taxpayer's liability based on the highest amount due in the previous 12 months and billing them for it, (iii) filing liens and requiring a new or increased payment bond, (iv) utilizing forced collection procedures such as seizing assets of the taxpayer (e.g., a checking account) or freezing assets of the taxpayer that are in the custody of third parties, (v) removing a taxpayer's sales and use tax permit, and (vi) certifying the account to the Attorney General's Office to file suit for collection. A municipality may not sue for delinquent taxes unless it joins the Attorney General as a plaintiff or unless it first receives the permission of the Attorney General and the Comptroller.

The Comptroller retains 2% of the tax receipts for collection of the tax; additionally, under State law, a taxpayer may deduct and withhold ½% of the amount of taxes due on a timely return as reimbursement for the cost of collecting the sales and use taxes. In addition, a taxpayer who prepays its tax liability on the basis of a reasonable estimate of the tax liability for a month or quarter in which a prepayment is made, may deduct and withhold 1¼% of the amount of the prepayment in addition of the ½% allowed for the cost of collecting the sales and use tax.

Investor Considerations

Sales Tax Volatility and Potential Changes in Sales Tax Base. The source of security for the Bonds will be receipts of the Sales Tax received by the City for the benefit of the Corporation. The amount of the revenues from the Sales Tax is closely related to the amount of economic activity in the City. Sales and use tax receipts, unlike other taxes levied by municipalities, immediately reflect changes in the economic conditions of a municipality.

Increases in Internet sales may result in a decrease in Sales Tax revenue to the Corporation. The emergence of Internet sales and services and issues related to taxation of such sales and services have been the subject of review and study at the state and national level. In October 1998, the United States Congress enacted the Internet Tax Freedom Act which provided a three year moratorium on certain aspects of taxation of the Internet (existing taxes imposed by Texas were exempted from the moratorium). Congress extended the moratorium for additional three-year terms in 2001 and 2004. In October 2007, Congress extended the moratorium for an additional seven years through 2014. On June 9, 2015, the United States House of Representatives voted and approved by voice vote the Permanent Internet Tax Freedom Act (the "PITFA") which would ban state and local Internet access taxation. The United States Senate never took action on the PITFA. The relevant provisions of the PITFA were added to Section 922 of the Trade Facilitation and Trade Enforcement Act (the "Trade Act"), signed into law by President Obama on February 24, 2016. The Trade Act bans Internet access taxes and imposes a firm end date on those states still imposing the tax. However, the Trade Act did not resolve the issue of whether a local government may impose sales taxes on online purchases. Legislative changes relating to the taxation of Internet sales and services, and any effect of such changes on the Sales Tax received by the Corporation, cannot be predicted at this time.

Historically, the Comptroller has remitted sales and use tax allocation checks to municipalities on a monthly basis, but State law currently requires that such allocation be made at least twice annually, and such procedures could change in the future. Additionally, the taxable items and services subject to State and local sales and use taxes are subject to legislative action, and have been changed in recent years by the State Legislature. State law provides that the Sales Tax cannot be levied against any taxable item or service unless such item or service is also subject to the State sales and use tax.

The State Legislature has enacted laws permitting the State, together with its political subdivisions, to levy sales and use taxes of up to 8¼%, which is among the highest sales tax rates in the nation (although the State has no personal or corporate income tax), and the current total sales and use tax rate within the City's boundaries is 8¼% (including State and City taxes as well as the Sales Tax). The rate of the sales and use taxes authorized in the State could be further increased by the State Legislature and the Corporation has no way of predicting any such increase or the effect that would have on the Sales Tax which will secure the Bonds. State leaders have appointed committees to study methods of achieving greater tax equity within the State's tax system. Any changes which may be enacted by the State Legislature could affect the tax base against which the Sales Tax is levied, and the City (and hence the Corporation, as the beneficiary of the City's action), except in certain limited instances described below, has no control over the components of the tax base. Neither the City nor the Corporation currently has statutory authority to increase or decrease the maximum authorized rate of the Sales Tax.

Tax receipts received by the Corporation are expected to be subject to seasonal variations and to variations caused by the State laws and administrative practices governing the remittance of sales and use tax receipts which authorize different taxpayers to remit the tax receipts at different times throughout the year. (See "Table 5 – SALES TAX COLLECTIONS – City of Joshua EDC", and "Table 6 – SALES TAX COLLECTIONS –City of Joshua, Texas" in Appendix A for more detail on actual sales and use tax collections over the past few years).

The Sales Tax is collected by the Comptroller and remitted to the City along with other City sales and use tax receipts. The City allocates a portion of the receipts to the Corporation which represents the ½ of 1% tax rate of the Sales Tax. Generally, sales and use taxes in the State are collected at the point of a taxable transaction and remitted by the taxpayer to the Comptroller. The Comptroller has the primary responsibility for enforcing sales and use tax laws and collecting delinquent taxes. The collection efforts of the Comptroller are subject to applicable federal bankruptcy code provisions with respect to the protection of debtors.

Changes in the tax base against which a sales and use tax is assessed, as well as changes in the rate of such taxes, make projection of future tax revenue collections very difficult. No independent projections have been made with respect to the revenues available to pay debt service on the Bonds.

Historical information regarding the State's sales tax base, gross sales within the City, and sales within the City which are subject to the State sales and use tax is included herein, and while the Corporation has no reason to expect that receipts of the Sales Tax will ever be insufficient to pay its outstanding Sales Tax secured debt, it makes no representation that, over the term of the Bonds, sales and services within the City will provide sufficient Sales Tax receipts to pay the Bonds and Additional Parity Obligations, if any. (See "TABLE 5 – SALES TAX COLLECTIONS – CITY OF JOSHUA EDC" in Appendix A hereto.)

BOND INSURANCE

The Corporation has applied for municipal bond insurance on the Bonds. The Corporation shall notify the Underwriter upon obtaining a commitment from a municipal bond insurance company (the "Bond Insurer") concerning the Bonds. The premium for a municipal bond insurance policy (the "Policy") shall be paid by the Corporation. The final Official Statement shall disclose, to the extent necessary, any relevant information relating to the Bond Insurer and the Policy.

BOND INSURANCE RISK FACTORS

The Corporation has applied for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds. The Corporation has yet to determine whether any insurance will be purchased with the Bonds. If a Policy is purchased, the following are risk factors relating to bond insurance.

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the Corporation which is recovered by the Corporation from the Bond owner as a voidable preference under applicable bankruptcy law may be covered by the Policy, however, such payments will be made by the Bond Insurer at such time and in such amounts as would have been due absent such prepayment by the Corporation unless the Bond Insurer chooses to pay such amounts at an earlier date.

Payment of principal and interest is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist. See "THE BONDS – Bondholders Remedies". The Bond Insurer may direct and must consent to any remedies that the Paying Agent/Registrar exercises and the Bond Insurer's consent may be required in connection with amendments to any applicable Bond documents.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the Pledged Revenues pursuant to the applicable Bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

If a Policy is acquired, the long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See "RATING" herein.

The obligations of the Bond Insurer are general obligations of the Bond Insurer and in an event of default by the Bond Insurer, the remedies available to the Paying Agent/Registrar may be limited by applicable bankruptcy law or other similar laws related to insolvency of insurance companies.

Neither the Corporation, the City, nor the Underwriter have made independent investigation into the claims paying ability of any potential Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of any potential Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the Corporation to pay principal and interest on the Bonds and the claims-paying ability of any potential Bond Insurer, particularly over the life of the Bonds.

Claims-Paying Ability and Financial Strength of Municipal Bond Insurers

Moody's Investor Services, Inc., S&P Global Ratings, and Fitch Ratings, Inc. (the "Rating Agencies") have downgraded and/or placed on negative watch the claims-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers are possible.

In addition, past events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Bonds. Thus, when making an investment decision, potential investors should carefully consider the ability of any such bond insurer to pay principal and interest on the Bonds and the claims-paying ability of any such bond insurer, particularly over the life of the Bonds.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE ISSUER

The Corporation invests its investable funds in investments authorized by State law in accordance with investment policies approved by the Board of Directors. Both State law and the Corporation's investment policies are subject to change. As required under State law, the Corporation reviews its investment policy on an annual basis.

Legal Investments

Under State law, the Corporation is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Company or the National Credit Union share insurance fund or their respective successors; (8) certificates of deposit and share certificates meeting the requirements of the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, (the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1)

through (6) or in any other manner and amount provided by law for Corporation deposits; or (ii) where (a) the funds are invested by the Corporation through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the Corporation as required by law or (ii) a depository institution that has its main office or a branch office in the State that is selected by the Corporation; (b) the broker or the depository institution selected by the Corporation arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Corporation; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the Corporation appoints the depository institution selected under (a) above, a custodian as described by Section 2257.04(d) of the Texas Government Code, as amended, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the Corporation with respect to the certificates of deposit; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the Corporation, held in the Corporation's name, and deposited at the time the investment is made with the Corporation or with a third party selected and approved by the Corporation and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above, clauses (12) through (14) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the Corporation, held in the Corporation's name and deposited at the time the investment is made with the governmental body or a third party designated by the governmental body; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (12) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (14) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The Corporation may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAA-m or an equivalent by at least one nationally recognized rating service. The Corporation may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the Corporation retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the Corporation must do so by order, ordinance, or resolution. The Corporation is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Investment Policies

Under State law, the Corporation is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for Corporation funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All Corporation funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, the Corporation's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly, the Corporation's investment officers must submit an investment report to the Board of Directors detailing: (1) the investment position of the Corporation, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) relevant provisions of the PFIA. No person may invest Corporation funds without express written authority from the Board of Directors.

Additional Provisions

Under State law, the Corporation is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made

to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the Corporation to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Directors; (4) require the qualified representative of firms offering to engage in an investment transaction with the Corporation to: (a) receive and review the Corporation's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Corporation and the business organization that are not authorized by the Corporation's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Corporation's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Corporation and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Corporation's investment policy; (6) provide specific investment training for the Treasurer, and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the Corporation's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Corporation.

Current Investments

As of September 30, 2017, the total carrying amounts of the Corporation's deposits were \$104,538. The Corporation's cash deposits at September 30, 2017, were entirely covered by FDIC insurance or by pledged collateral held by the Corporation's agent bank in the Corporation's name.

ANTICIPATED ISSUANCE OF ADDITIONAL DEBT

The Corporation does not anticipate the additional issuance of debt in the next twelve months.

The Corporation will continue to explore opportunities for economic development and may make commitments with respect to funds on hand available for such purpose or from moneys to be received subject to the flow of funds under the Resolution or through the issuance of Additional Parity Obligations.

RATING

A municipal bond rating application has been made to S&P Global Ratings ("S&P"). The Issuer currently has no underlying rating, because it has no outstanding debt. An explanation of the significance of any rating may be obtained from S&P. A rating by S&P reflects only the view of such company at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that such a rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

FEDERAL INCOME TAX TREATMENT OF THE BONDS

General

The following is a general summary of the United States federal income tax consequences of the purchase and ownership of the Bonds. The discussion is based upon the Internal Revenue Code of 1986, as amended (the "Code"), United States Treasury Regulations, rulings and decisions now in effect, all of which are subject to change (possibly, with retroactive effect) or possibly differing interpretations. No assurances can be given that future changes in the law will not alter the conclusions reached herein. The discussion below does not purport to deal with United States federal income tax consequences applicable to all categories of investors. Further, this summary does not discuss all aspects of United States federal income taxation that may be relevant to a particular investor in the Bonds in light of the investor's particular personal investment circumstances (for example, persons subject to alternative minimum tax) or to certain types of investors subject to special treatment under United States federal income tax laws (including insurance companies, tax exempt organizations, financial institutions, brokers-dealers, persons who have hedged the risk of owning the Bonds, traders in securities that elect to use a mark-to-market method of accounting, thrifts, regulated investment companies, pension and other employee benefit plans, partnerships and other pass-through entities, certain hybrid entities and owners of interests therein, persons who acquire Bonds in connection with the performance of services, or persons deemed to sell Bonds under the constructive sale provisions of the Code). The discussion below also does not discuss any aspect of State, local, or foreign law or United States federal tax laws other than United States federal income tax law. The summary is therefore limited to certain issues relating to initial investors who will hold the Bonds as "capital assets" within the meaning of section 1221 of the Code, and acquire such Bonds for investment and not as a dealer or for resale. This summary addresses certain federal income tax consequences applicable to beneficial owners of the Bonds who are United States persons within the meaning of Section 7701(a)(30) of the Code ("United States persons") and, except as discussed below, does not address any consequences to persons other than United States persons. Prospective investors should note that no rulings have been or will be sought from the Internal Revenue Service (the "IRS") with respect to any of the United States federal income tax consequences discussed below, and no assurance can be given that the Service will not take contrary positions.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND ANY OTHER TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE BONDS.

Payments and Reporting of Stated Interest on the Bonds

The stated interest paid on the Bonds will be included in the gross income, as defined in section 61 of the Code, of the beneficial owners thereof and be subject to United States federal income taxation when received or accrued, depending on the tax accounting method applicable to the beneficial owners thereof as ordinary income for federal income tax purposes. Subject to certain exceptions, the stated interest on the Bonds will

be reported to the Service. Such information will be filed each year with the Service on Form 1099 which will reflect the name, address, and taxpayer identification number (“TIN”) of the beneficial owner. A copy of Form 1099 will be sent to each beneficial owner of a Bond for federal income tax purposes.

Original Issue Discount

If the first price at which a substantial amount of the Bonds of any stated maturity is purchased at original issuance for a purchase price (the “Issue Price”) that is less than their stated redemption price at maturity (increased in certain cases by interest accrued and not paid for more than one year) by more than one quarter of one percent times the number of complete years to maturity, the Bonds of such maturity will be treated as being issued with “original issue discount.” The amount of the original issue discount will equal the excess of the principal amount payable on such Bonds at maturity over its Issue Price, and the amount of the original issue discount on the Bonds will be amortized over the life of the Bonds using the “constant yield method” provided in the Treasury Regulations. As the original issue discount accrues under the constant yield method, the beneficial owners of the Bonds, regardless of their regular method of accounting, will be required to include such accrued amount in their gross income as interest. This can result in taxable income to the beneficial owners of the Bonds that exceeds actual cash distributions to the beneficial owners in a taxable year.

The amount of the original issue discount that accrues on the Bonds each taxable year will be reported annually to the IRS and to the beneficial owners. The portion of the original issue discount included in each beneficial owner’s gross income while the beneficial owner holds the Bonds will increase the adjusted tax basis of the Bonds in the hands of such beneficial owner.

Premium

If a beneficial owner purchases a Bond for an amount that is greater than its stated redemption price at maturity, such beneficial owner will be considered to have purchased the Bond with “amortizable Bond premium” equal in amount to such excess. A beneficial owner may elect to amortize such premium using a constant yield method over the remaining term of the Bond and may offset interest otherwise required to be included in respect of the Bond during any taxable year by the amortized amount of such excess for the taxable year. Bond premium on a Bond held by a beneficial owner that does not make such an election will decrease the amount of gain or increase the amount of loss otherwise recognized on the sale, exchange, redemption or retirement of a Bond. However, if the Bond may be optionally redeemed after the beneficial owner acquires it at a price in excess of its stated redemption price at maturity, special rules would apply under the Treasury Regulations which could result in a deferral of the amortization of some Bond premium until later in the term of the Bond. Any election to amortize Bond premium applies to all taxable debt instruments held by the beneficial owner on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Defeasance

Persons considering the purchase of a Bond should be aware that a defeasance of a Bond by the Issuer could result in the realization of gain or loss by the beneficial owner of the Bond for federal income tax purposes, without any corresponding receipts of monies by the beneficial owner. Such gain or loss generally would be subject to recognition for the tax year in which such realization occurs, as in the case of a sale or exchange. Beneficial owners are advised to consult their own tax advisers with respect to the tax consequences resulting from such events.

Medicare Contribution Tax

Pursuant to Section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8 percent of the lesser of (i) net investment income (defined as gross income from interest, dividends, net gain from disposition of property not used in a trade or business, and certain other listed items of gross income), or (ii) the excess of “modified adjusted gross income” of the individual over \$200,000 for unmarried individuals (\$250,000 for married couples filing a joint return and a surviving spouse). Holders of the Bonds should consult with their tax advisor concerning this additional tax, as it may apply to interest earned on the Bonds as well as gain on the sale of a Bond.

Disposition of Bonds and Market Discount

A beneficial owner of Bonds will generally recognize gain or loss on the redemption, sale or exchange of a Bond equal to the difference between the redemption or sales price (exclusive of the amount paid for accrued interest) and the beneficial owner’s adjusted tax basis in the Bonds. Generally, the beneficial owner’s adjusted tax basis in the Bonds will be the beneficial owner’s initial cost, increased by the original issue discount previously included in the beneficial owner’s income to the date of disposition and decreased by any amortized per bond premium. Any gain or loss generally will be capital gain or loss and will be long-term or short-term, depending on the beneficial owner’s holding period for the Bonds.

Under current law, a purchaser of Bonds who did not purchase the Bonds in the initial public offering (a “subsequent purchaser”) generally will be required, on the disposition of the Bonds, to recognize as ordinary income a portion of the gain, if any, to the extent of the accrued “market discount.” Market discount is the amount by which the price paid for the Bonds by a subsequent purchaser is less than the sum of Issue Price and the amount of original issue discount previously accrued on the Bonds. The Code also limits the deductibility of interest incurred by a subsequent purchaser on funds borrowed to acquire Bonds with market discount. As an alternative to the inclusion of market discount in income upon disposition, a subsequent purchaser may elect to include market discount in income currently as it accrues on all market discount instruments acquired by the subsequent purchaser in that taxable year or thereafter, in which case the interest deferral rule will not apply. The re-characterization of gain as ordinary income on a subsequent disposition of Bonds could have a material effect on the market value of the Bonds.

Backup Withholding

Under section 3406 of the Code, a beneficial owner of the Bonds who is a United States person, as defined in section 7701(a)(30) of the Code, may, under certain circumstances, be subject to “backup withholding” on payments of current or accrued interest on the Bonds. This withholding applies if such beneficial owner of Bonds: (i) fails to furnish the payor such beneficial owner’s social security number or other taxpayer identification number (“TIN”); (ii) furnishes the payor an incorrect TIN; (iii) fails to report properly interest, dividends, or other “reportable payments” as defined in the Code; or (iv) under certain circumstances, fails to provide the payor with a certified statement, signed under penalty of perjury, that the TIN provided to the payor is correct and that such beneficial owner is not subject to backup withholding. To establish status as an exempt person, a beneficial owner will generally be required to provide certification on IRS Form W-9 (or substitute or replacement form). Backup withholding will not apply, however, with respect to payments made to certain beneficial owners of the Bonds. **BENEFICIAL OWNERS OF THE BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THEIR QUALIFICATION FOR EXEMPTION FROM BACKUP WITHHOLDING AND THE PROCEDURES FOR OBTAINING SUCH EXEMPTION. THE BACKUP WITHHOLDING TAX IS NOT AN ADDITIONAL TAX AND TAXPAYERS MAY USE AMOUNTS WITHHELD AS A CREDIT AGAINST THEIR FEDERAL INCOME TAX LIABILITY OR MAY CLAIM A REFUND AS LONG AS THEY TIMELY PROVIDE CERTAIN INFORMATION TO THE SERVICE.**

Withholding on Payments to Nonresident Alien Individuals and Foreign Corporations

Under sections 1441 and 1442 of the Code, nonresident alien individuals and foreign corporations are generally subject to withholding at the rate of 30 percent on periodic income items arising from sources within the United States, provided such income is not effectively connected with the conduct of a United States trade or business. Assuming the interest received by the beneficial owners of the Bonds is not treated as effectively connected income within the meaning of section 864 of the Code, such interest will be subject to 30 percent withholding, or any lower rate specified in an income tax treaty, unless such income is treated as portfolio interest. Interest will be treated as portfolio interest if: (i) the beneficial owner provides a statement to the payor certifying, under penalties of perjury, that such beneficial owner is not a United States person and providing the name and address of such beneficial owner; (ii) such interest is treated as not effectively connected with the beneficial owner’s United States trade or business; (iii) interest payments are not made to a person within a foreign country which the IRS has included on a list of countries having provisions inadequate to prevent United States tax evasion; (iv) interest payable with respect to the Bonds is not deemed contingent interest within the meaning of the portfolio debt provision; (v) such beneficial owner is not a controlled foreign corporation, within the meaning of section 957 of the Code; and (vi) such beneficial owner is not a bank receiving interest on the Bonds pursuant to a loan agreement entered into in the ordinary course of the bank’s trade or business. The treatment described under this section may have been modified by an applicable tax treaty.

Assuming payments on the Bonds are treated as portfolio interest within the meaning of sections 871 and 881 of the Code, then no backup withholding under section 1441 and 1442 of the Code and no backup withholding under section 3406 of the Code is required with respect to beneficial owners or intermediaries who have furnished Form W-8 BEN, Form W-8 EXP or Form W-8 IMY, as applicable, provided the payor does not have actual knowledge that such person is a United States person.

Foreign Account Tax Compliance Act.

Sections 1471 through 1474 of the Code impose a 30 percent withholding tax on certain types of payments made to a foreign financial institution, unless the foreign financial institution enters into an agreement with the United States Treasury to, among other things, undertake to identify accounts held by certain United States persons or United States-owned entities, annually report certain information about such accounts, and withhold 30 percent on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, the Foreign Account Tax Compliance Act (“FATCA”) imposes a 30 percent withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial United States owners or the entity furnishes identifying information regarding each substantial United States owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30 percent withholding tax being imposed on payments of interest and principal under the Bonds and sales proceeds of Bonds held by or through a foreign entity. In general, withholding under FATCA currently applies to payments of United States source interest (including original issue discount) and will apply to (i) gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2016 and (ii) certain “pass-thru” payments no earlier than January 1, 2017. Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The preceding discussion of certain United States federal income tax consequences is for general information only and is not tax advice. Accordingly, each investor should consult its own tax advisor as to particular tax consequences to it of purchasing, owning, and disposing of the Bonds, including the applicability and effect of any state, local, or foreign tax laws, and of any proposed changes in applicable laws.

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the Corporation’s continuing disclosure obligations, because the Corporation has not issued more than \$10,000,000 in aggregate amount of outstanding municipal securities (excluding securities offered in transactions that were exempt from the Rule) and no person is committed by contract or other arrangement with respect to payment of the Bonds. Pursuant to the exemption, in the Resolution, the Corporation has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The Corporation is required to observe the agreement for so long as it remains an “obligated person” with respect to the Bonds, within the meaning of the Securities and Exchange Commission’s Rule 15c2-12 (the “Rule”). Under the agreement, the Corporation will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the “MSRB”). The Corporation’s name, address and telephone number are provided on page iii of this Official Statement.

Annual Reports

The Corporation will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the Corporation of the general type included in this Official Statement that is customarily prepared by the Corporation and publicly available, which currently consists of an annual audited financial statement. The Corporation will update and provide this information within six months after the end of each fiscal year ending in and after 2017. The Corporation will provide the updated information to the MSRB in electronic format, which will be available to the public free of charge via the Electronic Municipal Market Access (“EMMA”) system at www.emma.msrb.org. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s Internet Web site or filed with the United States Securities and Exchange Commission (the “SEC”), as permitted by the Rule. The updated information will include audited financial statements, if the Corporation commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Corporation will provide unaudited financial statements within the required time and will provide audited financial statements when and if such audited financial statements become available. Any such financial statements will

be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the Corporation may be required to employ from time to time pursuant to State law or regulation.

The Corporation's current fiscal year end is September 30. Accordingly, it must provide updated information by the last day of March in each year following the end of its fiscal year, unless the Corporation changes its fiscal year. If the Corporation changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The Corporation will also provide timely notices of certain events to the MSRB. The Corporation will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten Business Days (defined below) after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds (provided, however, that the Bonds are issued as "taxable obligations"); (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Corporation, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the Corporation or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. Neither the Bonds nor the Resolution make any provision for credit enhancement (though the Corporation has made application to municipal bond insurance companies and will consider the purchase of such insurance after an analysis of such bids) or liquidity enhancement for the Bonds. Because the Bonds are taxable in nature, the Corporation will not provide any notice as to change in tax status. In addition, the Corporation will provide timely notice of any failure by the Corporation to provide annual financial information in accordance with their agreement described above under "Annual Reports".

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Corporation in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Corporation, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Corporation. The term "Business Day" means a day other than a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the designated trust office of the Paying Agent/Registrar (currently, its Austin, Texas office) is located are authorized by law or executive order to close.

Availability of Information from MSRB

Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the Corporation in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been designated by the State and approved by the SEC staff as a qualified State information depository. Subsequent to the EMMA Effective Date, the MAC entered into a subscription agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's website simultaneously with such posting.

Limitations and Amendments

The Issuer has agreed to update information and to provide notices of certain specified events only as described above. The Issuer has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Issuer makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Issuer disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its agreement or from any statement made pursuant to its agreement, although holders or beneficial owners of Bonds may seek a writ of mandamus to compel the Issuer to comply with its agreement.

The Issuer may amend its agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Issuer, if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the Issuer (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The Issuer may also repeal or amend its agreement if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the Issuer amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Agreements

Because the Corporation has no previously issued debt, no prior continuing disclosure undertaking agreements are in effect.

OTHER PERTINENT INFORMATION

Legal Matters

The Issuer will furnish to the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas to the effect that the Initial Bond is a valid and legally binding special obligation of the Corporation, and based upon examination of such transcript of proceedings, the approval of certain special legal matters by Bond Counsel, to the effect that the Bonds, issued in compliance with the provisions of the Resolution, are valid and legally binding obligations of the Corporation. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions or subcaptions "THE BONDS" (other than the information under the subcaptions "Payment Record", "Use of Bond Proceeds" and "Bondholders' Remedies", as to which no opinion is expressed), "SECURITY FOR THE BONDS", "REGISTRATION, TRANSFER AND EXCHANGE" "FEDERAL INCOME TAX TREATMENT OF THE BONDS", "CONTINUING DISCLOSURE OF INFORMATION" (other than the information under the subcaption "Compliance with Prior Agreements", as to which no opinion is expressed), and the subcaptions "Legal Matters" (except for the last two sentences of the second paragraph thereof, to which no opinion is expressed), "Registration and Qualification of Bonds for Sale", and "Legal Investments and Eligibility to Security Public Funds in Texas" under the caption "OTHER PERTINENT INFORMATION" in this Official Statement and "SELECTED PROVISIONS OF THE RESOLUTION" in Appendix D, and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Resolution. The legal opinion may accompany the Bonds deposited with DTC or may be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System.

Such firm has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the Issuer for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the Corporation and the City in connection with the issuance of the Bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, Petruska & Associates, A Professional Limited Liability Company. The fees of Underwriter's counsel are contingent upon the delivery of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the respective attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opened upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Registration and Qualification of Bonds for Sale

The sale of the Bonds has not been registered under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of this Official Statement. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The Corporation assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Underwriter to register or qualify sale of the Bonds under the securities laws of any jurisdiction which so requires. The Corporation will cooperate, at the Underwriter's written request and expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the Corporation shall not be required to execute a general or special consent to service of process in any jurisdiction.

Litigation

At the time of this Official Statement, neither the Issuer nor the City is a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either State or federal) which, if decided adversely to the Issuer or the City, would have a material adverse effect on the financial condition of the Issuer.

On the date of delivery of the Bonds to the Underwriter, the Corporation will execute and deliver to the Underwriter a certificate to the effect that, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act, as amended, provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, as amended, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the PFIA requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. (See "RATING" herein.) In addition, various provisions of the Texas Finance Code, as amended, provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their fair market value. No review by the City or the Corporation has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

No representation is made that the Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. Neither the City nor the Corporation has made an investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Bonds for such purposes.

Underwriting

Hilltop Securities, Inc. (the "Underwriter") has agreed, subject to certain conditions, to purchase the Bonds from the Issuer at a price of \$_____ (representing the par amount of the Bonds of \$_____, plus a net reoffering premium of \$_____, and less an Underwriter's discount of \$_____), plus accrued interest on the Bonds from the Dated Date to the date of initial delivery of the Bonds to the Underwriter.

The Underwriter's obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

Forward-Looking Statements Disclaimer

The statements contained in this Official Statement, and in any other information provided by the Issuer, that are not purely historical, are forward-looking statements, including statements regarding the Issuer's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Issuer on the date hereof, and the Issuer assumes no obligation to update any such forward-looking statements. The Issuer's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Issuer. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

Financial Advisor

SAMCO Capital Markets, Inc., as Financial Advisor has compiled certain data relating to the Bonds and has assisted in drafting this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for Financial Advisor are contingent upon the issuance, sale and delivery of the Bonds. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the Corporation or the City for the investment of bond proceeds or other funds of the Corporation or City upon request.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Corporation, and as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Miscellaneous

The financial data and other information contained in this Official Statement have been obtained from the Issuer's records, audited and unaudited financial statements of the Corporation, the Texas Comptroller of Public Accounts and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such original documents for further information. Reference is made to original documents in all respects.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, the Rule.

The Resolution will approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto issued on behalf of the Corporation, and will authorize its further use in the reoffering of the Bonds by the Underwriter.

This Official Statement will be approved by the Board of Directors of the Corporation for distribution in accordance with the provisions of the SEC rule codified at 17 C.F.R. Section 240.15c2-12.

JOSHUA TYPE A ECONOMIC DEVELOPMENT CORPORATION

/s/ _____
President, Board of Directors

ATTEST:

/s/ _____
Secretary, Board of Directors

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APPENDIX A
FINANCIAL INFORMATION OF THE ISSUER

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FINANCIAL INFORMATION FOR THE ISSUER

PRO FORMA SALES TAX DEBT SERVICE REQUIREMENTS

TABLE 1

Fiscal Year Ending Sept. 30	Current Total Outstanding Debt ⁽¹⁾	The Bonds*			Total Debt Service*
		Principal	Interest	Total	
2018	\$ 82,805	\$ -	\$ 40,521	\$ 40,521	\$ 123,326
2019	84,742	60,000	95,750	155,750	240,492
2020	81,581	60,000	92,750	152,750	234,331
2021	-	65,000	89,625	154,625	154,625
2022	-	70,000	86,250	156,250	156,250
2023	-	70,000	82,750	152,750	152,750
2024	-	75,000	79,125	154,125	154,125
2025	-	80,000	75,250	155,250	155,250
2026	-	85,000	71,125	156,125	156,125
2027	-	85,000	66,875	151,875	151,875
2028	-	90,000	62,500	152,500	152,500
2029	-	95,000	57,875	152,875	152,875
2030	-	100,000	53,000	153,000	153,000
2031	-	105,000	47,875	152,875	152,875
2032	-	110,000	42,500	152,500	152,500
2033	-	115,000	36,875	151,875	151,875
2034	-	125,000	30,875	155,875	155,875
2035	-	130,000	24,500	154,500	154,500
2036	-	135,000	17,875	152,875	152,875
2037	-	140,000	11,000	151,000	151,000
2038	-	150,000	3,750	153,750	153,750
Total	\$ 249,128	\$ 1,945,000	\$ 1,168,646	\$ 3,113,646	\$ 3,362,774

* Preliminary, subject to change.

⁽¹⁾ These payments to the City are subordinate to the payment due on the Bonds and represent the self-supporting portion of the City's Certificates of Obligation, Series 2008 ("City 2008 Obligations") that have a final maturity in fiscal year 2020.

PRO FORMA DEBT SERVICE COVERAGE

TABLE 2

Maximum Annual Debt Service Requirements (Prior Lien Only)	\$	156,250 *
Maximum Annual Debt Service Requirements (Prior Lien and City 2008 Obligations)	\$	240,492 *
Annual Sales Tax Receipts for Fiscal Year 2016-17	\$	316,154
Estimated Pro Forma Coverage based on Total Revenues Available (Prior Lien Only)		2.02X *
Estimated Pro Forma Coverage based on Total Revenues Available (Prior Lien and City 2008 Obligations)		1.31X
Average Annual Debt Service (Prior Lien Only - Excludes 2018)	\$	153,656 *
Average Annual Debt Service (Prior Lien and City 2008 Obligations - Excludes 2018)	\$	161,972 *
Annual Sales Tax Receipts for Fiscal Year 2016-17	\$	316,154
Estimated Pro Forma Coverage (Prior Lien Only)		2.06X *
Estimated Pro Forma Coverage (Prior Lien and City 2008 Obligations)		1.95X *

* Preliminary, subject to change.

NOTE: Per Section 13 of the Resolution, the Corporation will suspend depositing funds into the Reserve Fund as long as Pledged Revenues exceed 110% of the average annual debt service requirements for the preceding fiscal year. (SEE "SECURITY FOR THE BONDS - Reserve Fund Requirements" and "APPENDIX D - SELECTED PROVISIONS OF THE RESOLUTION" herein.)

JOSHUA TYPE A EDC SALES TAX REVENUE PRINCIPAL REPAYMENT SCHEDULE

TABLE 3

(As of March, 2016)

Fiscal Year Ending 9-30	Principal Repayment Schedule			Principal Unpaid at End of Year*	Percent of Principal Retired (%)*
	Currently Outstanding ⁽¹⁾	The Bonds*	Total*		
2018	\$ 75,000	\$ -	\$ 75,000	\$ 2,105,000	3.44%
2019	80,000	60,000	140,000	1,965,000	9.86%
2020	80,000	60,000	140,000	1,825,000	16.28%
2021	-	65,000	65,000	1,760,000	19.27%
2022	-	70,000	70,000	1,690,000	22.48%
2023	-	70,000	70,000	1,620,000	25.69%
2024	-	75,000	75,000	1,545,000	29.13%
2025	-	80,000	80,000	1,465,000	32.80%
2026	-	85,000	85,000	1,380,000	36.70%
2027	-	85,000	85,000	1,295,000	40.60%
2028	-	90,000	90,000	1,205,000	44.72%
2029	-	95,000	95,000	1,110,000	49.08%
2030	-	100,000	100,000	1,010,000	53.67%
2031	-	105,000	105,000	905,000	58.49%
2032	-	110,000	110,000	795,000	63.53%
2033	-	115,000	115,000	680,000	68.81%
2034	-	125,000	125,000	555,000	74.54%
2035	-	130,000	130,000	425,000	80.50%
2036	-	135,000	135,000	290,000	86.70%
2037	-	140,000	140,000	150,000	93.12%
2038	-	150,000	150,000	-	100.00%
Total	\$ 235,000	\$ 1,945,000	\$ 2,180,000		

* Preliminary, subject to change.

⁽¹⁾ These payments on the City 2008 Obligations are subordinate to debt service payments on the Bonds and represent the self-supporting portion of the City's 2008 Obligations that mature in fiscal year 2020.

JOSHUA TYPE A EDC SALES TAX REVENUE BOND DEBT DATA

TABLE 4

Revenue Bond Debt Principal Outstanding (as of January 1, 2018)	
The Corporation currently has no outstanding debt	\$ -
Prospective Sales Tax Revenue Bond Debt Principal	
Sales Tax Revenue Bonds, Taxable Series 2018 (the "Bonds")	<u>1,945,000</u> *
Total Revenue Debt Principal Outstanding Following the Issuance of the Bonds	\$ 1,945,000 *

* Preliminary, subject to change.

SALES TAX COLLECTIONS - JOSHUA TYPE A ECONOMIC DEVELOPMENT CORPORATION

TABLE 5

The following table shows a five-year history of Sales Tax Collections for the Joshua Type A Economic Development Corporation 1/2 of 1% of sales tax. It **does not include** sales tax collections for the 1% general sales tax for the City or the 1/2 of 1% collected for the Joshua Type B Economic Development Corporation/Parks Board.

The Joshua Type A Economic Development Corporation sales tax levy and collection of 1/2 of 1% was approved by voters at an election called on March 13, 2001, and approved on May 5, 2001.

	Year-to-Date					
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2017-2018 ⁽¹⁾	2016-2017	2015-2016 ⁽²⁾	2014-2015 ⁽²⁾	2013-2014	2012-2013
October	\$ 30,979	\$ 23,518	\$ 22,621	\$ 22,864	\$ 27,325	\$ 25,693
November	29,177	26,520	27,907	31,643	51,097	29,333
December	23,757	22,330	20,596	27,312	33,262	25,837
January	-	22,669	19,967	28,908	23,242	31,297
February	-	38,662	28,111	33,773	35,871	27,154
March	-	25,627	21,181	27,883	38,934	26,064
April	-	20,181	25,456	24,298	21,524	27,141
May	-	30,028	31,119	28,757	28,012	29,391
June	-	24,444	20,417	21,923	25,142	22,488
July	-	26,410	2,217	24,096	32,699	30,674
August	-	26,933	26,126	27,608	25,433	36,563
September	-	28,834	22,951	22,508	22,607	32,818
Total	\$ 83,914	\$ 316,154	\$ 268,669	\$ 321,572	\$ 365,148	\$ 344,453

⁽¹⁾ As of January, 2018; unaudited.

⁽²⁾ The decline in sales tax from fiscal year 2015 to fiscal year 2016 was due to decline in sales from a specialized oil and gas supply company that eventually moved out of the City limits during 2016.

Source: State Comptroller's Office of the State of Texas.

Note: Sale tax revenues noted above are listed by the month in which the City received them from the State, which is two months after they are generated.

SALES TAX COLLECTIONS - CITY OF JOSHUA, TEXAS

TABLE 6

The following table shows a five-year history of Sales Tax Collections for the City of Joshua's 1% general sales tax receipts and is provided for informational purposes only. It **does not include** 1/2 of 1% sales tax collections for the Joshua Type A Economic Development Corporation or the 1/2 of 1% collections for the Joshua Type B Economic Development Corporation/Parks Board.

Revenues from the City's 1% general sales tax receipts and the Joshua Type B Economic Development Corporation/Parks Board ARE NOT PLEDGED to the payment of the Bonds.

	Year-to-Date					
	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
	2017-2018 ⁽¹⁾	2016-2017	2015-2016 ⁽²⁾	2014-2015 ⁽²⁾	2013-2014	2012-2013
October	\$ 61,959	\$ 47,035	\$ 45,242	\$ 45,728	\$ 54,650	\$ 51,386
November	58,355	53,039	55,814	63,285	102,194	58,666
December	47,515	44,661	41,192	54,624	66,524	51,673
January	-	45,338	39,933	57,817	46,485	62,594
February	-	77,324	56,222	67,547	71,742	54,307
March	-	51,253	42,362	55,765	77,867	52,129
April	-	40,362	50,911	48,596	43,048	54,283
May	-	60,056	62,239	57,514	56,024	58,782
June	-	48,889	40,834	43,846	50,284	44,976
July	-	52,820	4,433	48,191	65,399	61,349
August	-	53,865	52,251	55,215	50,867	73,126
September	-	57,667	45,903	45,016	45,213	65,637
Total	\$ 167,829	\$ 632,309	\$ 537,337	\$ 643,145	\$ 730,296	\$ 688,907

⁽¹⁾ As of January 2018; unaudited.

⁽²⁾ The decline in sales tax from fiscal year 2015 to fiscal year 2016 was due to decline in sales from a specialized oil and gas supply company that eventually moved out of the City limits during 2016.

Source: State Comptroller's Office of the State of Texas.

Note: Sale tax revenues noted above are listed by the month in which the City received them from the State, which is two months after they are generated.

APPENDIX B
GENERAL INFORMATION REGARDING
THE CITY OF JOSHUA, TEXAS AND JOHNSON COUNTY, TEXAS

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**GENERAL INFORMATION REGARDING THE CITY OF JOSHUA
AND JOHNSON COUNTY, TEXAS**

Location and Government

The City of Joshua, Texas (the “City”) is a political subdivision of the State of Texas located on Highway 174 in Johnson County. The City is between Cleburne and Burleson, Texas. The City is approximately 23 miles south of downtown Fort Worth, Texas and 53 miles southwest of Dallas, Texas. The plat for Joshua was first surveyed in 1880, and the community was organized there in 1881 when the Gulf, Colorado, and Santa Fe Railway was completed from Cleburne to Fort Worth. The name Joshua, was purportedly chosen after the biblical Joshua. The City was incorporated in 1955 and adopted a Home Rule Charter on August 11, 1998 and operates under a Council/Manager form of government. The City Council consists of seven members (a Mayor and six council members) elected by the City’s residents. The 2018 estimated population is 6,680.

Johnson County

Economic Background

Johnson County (the “County”) is a north central Texas county drained by tributaries of Trinity and Brazos rivers. The economy is based on agribusiness and manufacturing. The Texas Almanac designates dairy, cattle, hay, horses, cotton, sorghum, wheat, oats, and hogs as principal sources of agricultural income. The estimated area of the County is 740 miles.

The economy is based on agribusiness and manufacturing. The Texas Almanac designates livestock, hay, wheat, grain, corn, peaches, and oats as principal sources of agricultural income. The region has a varied manufacturing and industrial tax base that contributes to the relatively favorable unemployment rate.

Population in the County is expected to grow the fastest it has in the past, with communities within the County seeing impressive residential development. Such growth will demand the expanded service of the Tax Office, Justice of the Peace, and County Clerk. The area is near the tollway and this is a manifestation of much-expected benefits of the new thoroughfare into Fort Worth.

2016 Major Employers of the County

Employer	No. of Employees
Burleson ISD	1,615
Cleburne ISD	1,145
Wal-Mart Distribution Center	768
Joshua ISD	716
Sabre Tubular Structures	613
Johnson County	528
Wal-Mart Supercenter (Burleson)	443
Wal-Mart Supercenter (Cleburne)	408
Texas Health Resources	406
City of Cleburne	306

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APPENDIX C
FORM OF LEGAL OPINION OF BOND COUNSEL

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DRAFT 1/10/18

IN REGARD to the authorization and issuance of the “Joshua Type A Economic Development Corporation Sales Tax Revenue Bonds, Taxable Series 2018” (the *Bonds*), dated March 1, 2018, in the aggregate principal amount of \$_____, we have reviewed the legality and validity of the issuance thereof by the Board of Directors of the Joshua Type A Economic Development Corporation (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof, and have stated maturities as set forth in the Resolution (hereinafter defined) on February 1 in each of the years 2019 through 2038, unless redeemed prior to stated maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the bond resolution authorizing the issuance of the Bonds (the *Resolution*). Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Resolution.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Issuer in connection with the issuance of the Bonds, including the Resolution and the resolution and ordinances adopted by the City Council of the City of Joshua, Texas; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer and the City; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the Issuer, which we found to be in due form and properly executed, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such

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Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “JOSHUA TYPE A ECONOMIC DEVELOPMENT CORPORATION SALES TAX REVENUE BONDS, TAXABLE SERIES 2018”

certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized by the Issuer in compliance with the Constitution and are issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid, legally binding, and enforceable special obligations of the Issuer, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from and equally and ratably secured solely by a first and prior lien on and pledge of the Pledged Revenues derived from the Sales Tax. In the Resolution, the Issuer retains the right to issue Additional Parity Obligations or Inferior Lien Obligations payable from and secured by a lien on a pledge of all or any of the Pledged Revenues on parity with or subordinate to, respectively, the lien thereon and pledge thereof securing the Bonds, without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the Issuer, except with respect to the Pledged Revenues. The holder of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by ad valorem taxation.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Norton Rose Fulbright US LLP

APPENDIX D
SELECTED PROVISIONS OF THE RESOLUTION

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EXHIBIT D

SELECTED PROVISIONS OF THE RESOLUTION

The following constitutes a summary of certain selected provisions of the Resolution. This summary should be qualified by reference to other provisions of the Resolution referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Resolution in this Official Statement are, separately and in whole, qualified by reference to the exact terms of the Resolution, a copy of which may be obtained from the Corporation.

SECTION 9: Definitions. For all purposes of this Resolution (as defined below), except as otherwise expressly provided or unless the context otherwise requires: (i) the terms defined in this Section have the meanings assigned to them in this Section, and certain terms used in Sections 26 and 39 of this Resolution have the meanings assigned to them in Sections 26 and 39 of this Resolution, and all such terms, include the plural as well as the singular; (ii) all references in this Resolution to designated “Sections” and other subdivisions are to the designated Sections and other subdivisions of this Resolution as originally adopted; and (iii) the words “herein”, “hereof”, and “hereunder” and other words of similar import refer to this Resolution as a whole and not to any particular Section or other subdivision.

A. The term *Act* shall mean the Development Corporation Act of 1979, as amended, Texas Revised Civil Statutes Annotated Article 5190.6, currently codified as Chapter 504, Texas Local Government Code, as amended, and to the extent applicable, Chapter 501, Texas Local Government Code, as amended.

B. The term *Additional Parity Obligations* shall mean (i) any bonds, notes, or other evidences of indebtedness which the Corporation reserves the right to issue or enter into, as the case may be, in the future in accordance with the terms and conditions provided in Section 17 of this Resolution and a Supplemental Resolution, and which are equally and ratably secured solely by a prior and first lien on and pledge of the Pledged Revenues, and (ii) any obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and secured by a prior and first lien on and pledge of the Pledged Revenues as determined by the Board in accordance with Applicable Law.

C. The term *Applicable Law* shall mean the Act and all other laws or statutes, rules or regulations of the State of Texas or the United States of America which govern the Corporation or its property.

D. The term *Authorized Officials* shall mean the President, Vice President, Secretary, Executive Director, a Director, or Treasurer of the Corporation and the Mayor, City Manager, and Director of Finance for the City.

E. The term *Board* shall mean the Board of Directors of the Corporation.

F. The term *Bonds* shall mean the “Joshua Type A Economic Development Corporation Sales Tax Revenue Bonds, Taxable Series 2018”, dated March 1, 2018, authorized by this Resolution.

G. The term *City* shall mean the City of Joshua, Texas.

H. The term *Closing Date* shall mean the date of physical delivery of the Initial Bond in exchange for the payment of the agreed purchase price for the Bonds.

I. The term *Corporation* shall mean the Joshua Type A Economic Development Corporation, a non-profit economic development corporation organized and existing under and pursuant to the laws of the State of Texas, including the Act, with its principal place of business in Johnson County, Texas.

J. The term *Credit Agreement* shall mean a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized, and approved by the Corporation as a Credit Agreement in connection with the authorization, issuance, security, or payment of any Bond.

K. The term *Credit Facility* shall mean (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations under and pursuant to Texas law, or (ii) a letter or line of credit issued by any financial institution authorized under applicable Texas law to deliver such types of financial instrument.

L. The term *Credit Provider* shall mean any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement or a Credit Facility.

M. The term *Debt Service* shall mean as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the Corporation as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations without a fixed numerical rate, that such obligations bear, or would have borne, interest at the maximum legal per annum rate applicable to such obligations, and further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to maturity, the principal amounts thereof will be redeemed prior to maturity in accordance with the mandatory redemption provisions applicable thereto.

N. The term *Depository* shall mean a commercial bank or other qualified financial institution eligible and qualified to serve as the custodian of the Corporation's monetary accounts and funds.

O. The term *Fiscal Year* shall mean the twelve month financial accounting period used by the Corporation ending September 30 in each year, provided, however, the Corporation may change such annual financial accounting period to end on another date if such change is found and determined to be necessary for accounting purposes or is required by applicable law.

P. The term *Government Securities* shall mean (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a

nationally recognized investment rating firm not less than AAA or its equivalent; (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; or (iv) any additional securities and obligations hereafter authorized by the laws of the State of Texas as eligible for use to accomplish the discharge of obligations such as the Bonds.

Q. The term *Gross Sales Tax Revenues* shall mean all of the revenues or receipts due or owing to, or collected or received by or on behalf of the Corporation by the City or otherwise pursuant to the Act and the election held May 5, 2001, less any amounts due and owed to the Comptroller of Public Accounts of the State of Texas as charges for the collection of the Sales Tax or retention by the Comptroller for refunds and to redeem dishonored checks and drafts, to the extent such charges and retention are authorized or required by Applicable Law.

R. The term *Inferior Lien Obligations* shall mean (i) any bonds, notes, or other debt hereafter issued by the Corporation that are payable from and equally and ratably secured by a lien on and pledge of the Pledged Revenues that is subordinate and inferior to the pledge thereof securing payment of the Bonds, all as further provided in Section 17 of the Resolution or any Additional Parity Obligations hereafter issued by the Corporation, and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by a subordinate and inferior lien on and pledge of the Pledged Revenues as determined by the Board in accordance with Applicable Law.

S. The term “*Insurance Policy*” shall mean the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due. The Insurance Policy shall be deemed to be a “Credit Facility” for purposes of this Resolution.

T. The term “*Insurer*” shall mean _____, a _____ stock insurance company, or any successor thereto or assignee thereof. The Insurer shall be deemed to be a Credit Provider for purposes of this Resolution.

U. The term *Outstanding* when used in this Resolution with respect to the Parity Revenue Obligations or any Inferior Lien Obligations, as the case may be, means, as of the date of determination, all Parity Revenue Obligations and Inferior Lien Obligations theretofore sold, issued and delivered by the Corporation, except:

(1) those Parity Revenue Obligations or Inferior Lien Obligations canceled or delivered to the transfer agent or registrar for cancellation in connection with the exchange or transfer of such obligations;

(2) those Parity Revenue Obligations or Inferior Lien Obligations paid or deemed to be paid in accordance with the provisions of Section 23 hereof or similar provisions of any Supplemental Resolution authorizing the issuance of Additional Parity Obligations or Inferior Lien Obligations; and

(3) those Parity Revenue Obligations or Inferior Lien Obligations that have been mutilated, destroyed, lost, or stolen and replacement obligations have been registered and delivered in lieu thereof.

V. The term *Parity Revenue Obligations* shall mean collectively, the Bonds and any Additional Parity Obligations.

W. The term *Pledged Revenues* shall mean collectively (i) Gross Sales Tax Revenues from time to time deposited or owing to the Pledged Revenue Fund, and (ii) such other money, income, revenue, receipts or other property as may be specifically dedicated, pledged or otherwise encumbered in a Supplemental Resolution for the payment and security of any Parity Revenue Obligations.

X. The term *Purchasers* shall mean the initial purchasers of the Bonds named in Section 35 of this Resolution.

Y. The term *Required Reserve* shall mean the amount required to be accumulated and maintained in the Reserve Fund as further described in the provisions of Section 13 hereof.

Z. The term *Sales Tax* shall mean the local sales and use tax authorized under the Act, approved at an election held on May 5, 2001, and the effective date for the imposition and application of such Sales Tax within the corporate limits of the City by the Comptroller of Public Accounts of the State of Texas being October 1, 2001, together with any increases in the rate of such Sales Tax authorized and provided by Applicable Law.

AA. The term *Supplemental Resolution* shall mean any resolution of the Board supplementing this Resolution for the purpose of authorizing and providing the terms and provisions of the Bonds, any Additional Parity Obligations, or Inferior Lien Obligations, or supplementing or amending this Resolution for any other authorized purpose permitted in Section 17, 18 or 19 hereof, including resolutions authorizing the issuance of Bonds, any Additional Parity Obligations, or Inferior Lien Obligations or pledging and encumbering income, revenues, receipts or property other than the Gross Sales Tax Revenues to the payment and security of the Bonds, any Additional Parity Obligations, or Inferior Lien Obligations.

SECTION 10: Pledge.

A. The Corporation hereby covenants and agrees that the Pledged Revenues, with the exception of those in excess of the amounts required for the payment and security of the any Additional Parity Obligations hereafter issued by the Corporation, are hereby irrevocably pledged to the payment and security of the Bonds and any Additional Parity Obligations, if issued, including the establishment and maintenance of the special funds created and established in this Resolution and any Supplemental Resolution, all as hereinafter provided. The Corporation hereby resolves that the Bonds and any Additional Parity Obligations shall constitute a lien on the Pledged Revenues in accordance with the terms and provisions of this Resolution and any Supplemental Resolution, which lien shall be valid and binding without any further action by the Corporation and without any filing or recording with respect thereto except in the records of the Corporation.

B. Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the pledge of Pledged Revenues granted by the Corporation under subsection (a) of this

Section, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while the Bonds are Outstanding and unpaid such that the pledge of the Pledged Revenues granted by the Corporation is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in this pledge, the Board agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, as amended, Texas Business & Commerce Code and enable a filing to perfect the security interest in this pledge to occur.

SECTION 11: Pledged Revenue Fund. The Corporation hereby agrees and covenants to establish and maintain a fund or account at a Depository for the deposit of the Pledged Revenues as received by the Corporation, which fund or account shall be known on the books and records of the Corporation as the *Pledged Revenue Fund*. All Pledged Revenues deposited to the credit of such Fund shall be accounted for separate and apart from all other revenues, receipts and income of the Corporation and, with respect to the Gross Sales Tax Revenues, the Corporation shall further account for such funds separate and apart from the other Pledged Revenues deposited to the credit of the Pledged Revenue Fund. All Pledged Revenues deposited to the credit of the Pledged Revenue Fund shall be appropriated and expended to the extent required by this Resolution and any Supplemental Resolution for the following uses and in the order of priority shown:

First: To the payment of the amounts required to be deposited in the Bond Fund for the payment of Debt Service on the Parity Revenue Obligations as the same becomes due and payable.

Second: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of this Resolution and any Supplemental Resolution.

Third: To the payments of the amounts required to be deposited in any other fund or account required by any Supplemental Resolution authorizing the issuance of Parity Revenue Obligations.

Fourth: To any fund or account held at any place or places, or to any payee, required by any other resolution of the Board which authorized the issuance of obligations or the creation of debt of the Corporation having a lien on the Pledged Revenues subordinate to the lien created herein on behalf of the Parity Revenue Obligations, including Inferior Lien Obligations.

Fifth: To the payment of any other outstanding debt or obligation of the Corporation.

Any Pledged Revenues remaining in the Pledged Revenue Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other lawful purpose now or hereafter permitted by law, including capital improvements.

SECTION 12: Bond Fund - Surplus Bond Proceeds. For the purpose of providing funds to pay the principal of and interest on the Bonds and any Additional Parity Obligations, the Corporation agrees and covenants to maintain a separate and special account or fund on the books

and records of the Corporation known as “Joshua Type A Economic Development Corporation Debt Service Account” (the *Bond Fund*), and all money deposited to the credit of such Fund shall be held in a special banking fund or account maintained at a Depository of the Corporation. The Corporation covenants that there shall be deposited into the Bond Fund prior to each principal and interest payment date from the Pledged Revenues an amount equal to one hundred percent (100%) of the interest on and principal of the Bonds and any Additional Parity Obligations then falling due and payable, and such deposits to pay principal and accrued interest on the Bonds and any Additional Parity Obligations shall be made in substantially equal monthly installments on or before (i) the 15th day of the month commencing on or before the 15th day of the month following delivery of the Bonds or (ii) the first business day next following the date Gross Sales Tax Revenues are first received from the State Comptroller of Public Accounts, whichever date is the later.

The required deposits to the Bond Fund for the payment of principal of and interest on the Bonds and any Additional Parity Obligations shall continue to be made as hereinabove provided until (i) the total amount on deposit in the Bond Fund and Reserve Fund is equal to the amount required to fully pay and discharge the Bonds and any Additional Parity Obligations (principal and interest) then Outstanding or (ii) the Bonds and any Additional Parity Obligations are no longer Outstanding.

Accrued interest and capitalized interest, if any, received from the issuance of any Bonds and any Additional Parity Obligations shall be taken into consideration and shall reduce the amount of the monthly deposits hereinabove required to be deposited into the Bond Fund from the Pledged Revenues. Additionally, any proceeds of the Bonds not required to construct the Project shall be deposited into the Bond Fund and shall be taken into consideration and shall reduce the amount of monthly deposits required to be deposited into the Bond Fund from the Pledged Revenues. Lastly, any interest income transferred to the Bond Fund from the Reserve Fund or the Construction Fund shall reduce the amount of monthly deposits required to be deposited into the Bond Fund from the Pledged Revenues.

SECTION 13: Reserve Fund. The Corporation agrees and covenants to maintain on the books and records of the Corporation a separate and special fund or account to be known as the “Joshua Type A Economic Development Corporation Reserve Fund” (the *Reserve Fund*), which fund or account shall be a special banking fund maintained at a Depository. All Pledged Revenues deposited to the credit of such fund or account shall be used solely for the payment of the principal of and interest on the Parity Revenue Obligations when (whether at maturity, upon a redemption date or any interest payment date) other funds available for such purposes are insufficient, and, in addition, may be used to the extent not required to maintain the Required Reserve, to pay, or provide for the payment of, the final principal amount of a series of Parity Revenue Obligations so that such series of Parity Revenue Obligations is no longer deemed to be Outstanding as such term is defined herein. Once the Required Reserve is on deposit in the Reserve Fund, any interest income earned on money deposited in the Reserve Fund shall be transferred by the Corporation to the Bond Fund.

The total amount to be accumulated and maintained in the Reserve Fund by reason of the issuance of the Bonds shall be \$0.00 (the *Required Reserve*), and immediately following the delivery of the Bonds to the Purchasers, there shall be deposited to the credit of the Reserve Fund the amount of \$0.00 because of the operation of the last paragraph of this Section 13. With respect

to the issuance of the Bonds the Purchasers did not require that the Required Reserve amount be funded.

As and when Additional Parity Obligations are delivered or incurred, the Required Reserve shall be increased, if required, to an amount equal to the lesser of (i) average annual Debt Service (calculated on a Fiscal Year basis) for all Parity Revenue Obligations then Outstanding (after giving effect to the issuance of the Additional Parity Obligations), as determined on the date each series of Additional Parity Obligations are delivered or incurred, as the case may be or (ii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of section 148 of the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder (to the extent the Additional Parity Obligations are issued on a tax-exempt basis). Any additional amount required to be accumulated and maintained in the Reserve Fund shall be accumulated by the deposit to the credit of the Reserve Fund of all or any part in cash immediately after the delivery of the then proposed Additional Parity Obligations, or, at the option of the Corporation, by the deposit of monthly installments, made on or before the 10th day of each month following the month of delivery of the then proposed Additional Obligations, of not less than 1/60th of the additional amount to be maintained in said Fund by reason of the issuance of the Additional Parity Obligations then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash).

While the value of the cash and investments in the Reserve Fund total not less than the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but, if and when the value of the Reserve Fund at any time contains less than the Required Reserve, the Corporation covenants and agrees to cure the deficiency in the Required Reserve by resuming monthly deposits to said Fund from all available Pledged Revenues and such deposits are to be made to the Reserve Fund before the 10th day of each month until the total Required Reserve then required to be maintained in said Fund has been fully restored. The Corporation further covenants and agrees that the Pledged Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amounts as required by the terms of this Resolution and any Supplemental Resolution.

During such time as the Reserve Fund contains the total Required Reserve, the Corporation may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the Pledged Revenue Fund.

The Corporation expressly reserves the right at any time to fund the Reserve Fund at the Required Reserve by purchasing an insurance policy, including a Credit Facility or a Credit Agreement that will unconditionally obligate the insurance company or other entity to pay all, or any part thereof, of the Required Reserve in the event funds on deposit in the Bond Fund are not sufficient to pay the debt service requirements on the Bonds. All resolutions adopted after the date hereof authorizing the issuance of Additional Parity Obligations shall contain a provision to this effect.

In the event an insurance policy issued to satisfy all or part of the Corporation's obligation with respect to the Reserve Fund causes the amount then on deposit in the Reserve Fund to exceed the Required Reserve, the Corporation may transfer such excess amount to any fund or account established for the payment of or security for the Bonds (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, as amended, Texas Government

Code) or use such excess amount for any lawful purpose now or hereafter provided by law; provided, however, to the extent that such excess amount represents Bond proceeds, then such amount must be transferred to the Bond Fund or as otherwise permitted in accordance with then applicable Texas law.

Notwithstanding anything to the contrary contained in this Section, the requirements set forth above to fund the Reserve Fund in the amount of the Required Reserve amount shall be suspended for such time as the Pledged Revenues for each Fiscal Year are equal to at least 110% of the maximum annual Debt Service requirements. In the event that the Pledged Revenues for any two consecutive Fiscal Years are less than 110% (unless such percentage is below 100% in any Fiscal Year, in which case the hereinafter-specified requirements will commence after such Fiscal Year) of the maximum annual Debt Service requirements, the Corporation will be required to commence making the deposits to the Reserve Fund, as provided above, and to continue making such deposits until the earlier of (i) such time as the Reserve Fund contains the Required Reserve amount or (ii) the Pledged Revenues for a Fiscal Year have been equal to not less than 110% of the maximum annual Debt Service requirements.

SECTION 14: Deficiencies. If on any occasion there shall not be sufficient Pledged Revenues to make the required deposits into the Bond Fund or Reserve Fund, such deficiency shall be cured as soon as possible from the next available Pledged Revenues, or from any other sources lawfully available for such purpose.

SECTION 15: Payment of Bonds. While any of the Bonds are Outstanding, the Authorized Officials shall cause to be transferred to the Paying Agent/Registrar, from funds on deposit in the Bond Fund, and, if necessary, in the Reserve Fund, amounts sufficient to fully pay and discharge promptly as each installment of interest and principal of the Bonds accrues or matures; such transfer of funds to be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds at the close of the business day next preceding the date of payment for the Bonds.

SECTION 16: Investments - Security of Funds. Money in any Fund required to be maintained pursuant to this Resolution may, at the option of the Corporation or the City with respect to the Construction Fund (as established in Section 35 hereof), be invested in obligations and in the manner prescribed by the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code, including investments held in book-entry form; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times and provided further the maximum stated maturity for any investment acquired with money deposited to the credit of the Reserve Fund shall be limited to five (5) years from the date of the investment of such money. Such investments shall be valued in terms of current market value within 45 days of the close of each Fiscal Year and, with respect to investments held for the account of the Reserve Fund, within 45 days of the date of passage of each authorizing document of the Board pertaining to the issuance of Additional Parity Obligations. All interest and income derived from deposits and investments in the Bond Fund immediately shall be credited to, and any losses debited to, the appropriate account of the Bond Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund, shall, subject to the limitations provided in Section 13 hereof, be credited to and deposited in the Pledged Revenue Fund. All such investments shall be sold

promptly when necessary to prevent any default in connection with the Parity Revenue Obligations.

SECTION 17: Issuance of Additional Parity Obligations. Subject to the provisions hereinafter appearing as to conditions precedent which must be satisfied, the Corporation reserves the right to issue, from time to time as needed, Additional Parity Obligations for any lawful purpose. Such Additional Parity Obligations may be issued in such form and manner as the Corporation shall determine, provided, however, prior to issuing or incurring such Additional Parity Obligations, the following conditions precedent for the authorization and issuance of the same are satisfied:

A. Except for a refunding to cure a default or the deposit of all or a portion of the proceeds of any Additional Parity Obligations to satisfy the Corporation's obligations under this Resolution, the Treasurer or Executive Director of the Corporation (or other officer of the Corporation then having the primary responsibility for the financial affairs of the Corporation) shall have executed a certificate stating that, to the best of his or her knowledge and belief, the Corporation is not then in default as to any covenant, obligation or agreement contained in the Resolution or a Supplemental Resolution.

B. The Corporation has secured from the Corporation's Treasurer or Executive Director a certificate or opinion to the effect that, according to the books and records of the Corporation, the Gross Sales Tax Revenues received by the Corporation for either (i) the last completed Fiscal Year next preceding the adoption of the Supplemental Resolution authorizing the issuance of the proposed Additional Parity Obligations or (ii) any twelve (12) consecutive months out of the previous eighteen (18) months next preceding the adoption of the Supplemental Resolution authorizing the Additional Parity Obligations were equal to not less than 1.25 times the average annual debt service requirements for all Parity Revenue Obligations then Outstanding and after giving effect to the issuance of the Additional Parity Obligations then being issued.

C. The Required Reserve to be accumulated and maintained in the Reserve Fund is increased to the extent required by Section 13.

D. Each of the funds created for the payment, security, and benefit of the Parity Revenue Obligations contains the amount of money then required to be on deposit therein.

E. Any Additional Parity Obligations are made to mature on February 1 or August 1 of each year in which they are scheduled to mature.

SECTION 18: Refunding Bonds. The Corporation reserves the right to issue refunding bonds to refund all or any part of the Outstanding Parity Revenue Obligations, pursuant to any Applicable Law then available, upon such terms and conditions as the Board of Directors may deem to be in the best interest of the Corporation, and if less than all such Outstanding Parity Revenue Obligations are refunded, the conditions precedent prescribed for the issuance of any Additional Parity Obligations set forth in Section 17 of this Resolution shall be satisfied and the Treasurer or Executive Director's certificate or opinion required in subparagraph B shall give effect to the Debt Service requirements of the proposed refunding bonds (but shall not give effect to the Debt Service requirements of the bonds being refunded following their cancellation or provision being made for their payment); provided that, if after giving effect to any such partial

refunding the maximum annual debt service requirements for all Outstanding Parity Revenue Obligations will be reduced, then the test set forth in subparagraph B clause (ii) of Section 17 shall be applied by substituting “1.00” for 1.25.

SECTION 19: Right to Create Subordinate and Inferior Debt. Except as may be limited by a Supplemental Resolution, the Corporation shall have the right to issue or create any debt payable from or secured by a lien on all or any part of the Pledged Revenues for any lawful purpose without complying with the provisions of Section 17 or 18 hereof, provided the pledge and the lien securing such debt is subordinate to the pledge and lien established, made and created in Section 10 of this Resolution with respect to the Pledged Revenues to the payment and security of the Parity Revenue Obligations and provided further, that the resolution or other agreement or document setting forth the terms of any such subordinated debt (the *Inferior Lien Obligations*) shall contain provisions substantially in accordance with the following:

(1) upon the occurrence of any Event of Default (as hereinafter defined) under this Resolution, all principal and interest on the Outstanding Parity Revenue Obligations together with all costs, expenses and fees, including but not limited to legal fees, incurred by the holders of the Parity Revenue Obligations in enforcing the Parity Revenue Obligations and collecting or realizing upon the Pledged Revenues (collectively, all such amounts referred to as the *Parity Revenue Obligations' Claims*), must be paid in full before the holders of any Inferior Lien Obligations shall be entitled to receive any payment on account of such obligations, whether such payment is in kind or in cash;

(2) the holders of the Inferior Lien Obligations agree that until such time as the Parity Revenue Obligations' Claims shall have been paid in full, the holders of the Inferior Lien Obligations (and their representatives) shall not be entitled to initiate or pursue any enforcement or attachment actions or any other remedies against the Corporation or the Pledged Revenues in respect of any default under the terms of such Inferior Lien Obligations;

(3) any fund out of which the holders of the Inferior Lien Obligations are to be paid shall be subject to a security interest in favor of the holders of the Parity Lien Obligations to secure amounts due to them pursuant hereto, and the holders of the Inferior Lien Obligations by acceptance thereof agree that the holders of the Parity Revenue Obligations may collect the Parity Revenue Obligations' Claims directly from any trustee or representative of the Corporation's estate in any bankruptcy or other similar proceeding and the Corporation agrees to furnish all assignments, powers or other documents requested by the holders of the Parity Revenue Obligations to facilitate such direct collection by such holders;

(4) the holders of the Parity Revenue Obligations are authorized to file a claim in any bankruptcy or other similar proceeding on behalf of the holders of the Inferior Lien Obligations or may compel the holders of the Inferior Lien Obligations to file such claim, and in no event shall the holders of the Inferior Lien Obligations waive, forgive, or cancel any claim it may now or hereafter have against the Corporation;

(5) the holders of the Inferior Lien Obligations by their acceptance thereof also grant to the holders of the Parity Revenue Obligations an irrevocable proxy (which shall

be deemed to be coupled with an interest) to vote all claims of the holders of the Inferior Lien Obligations in any bankruptcy or other similar proceedings and to execute on behalf of the holders of the Inferior Lien Obligations all further documents requested by the holders of the Parity Revenue Obligations to facilitate exercise of such proxy;

(6) upon request of the holders of the Parity Revenue Obligations in writing, any or all claims of the holders of the Inferior Lien Obligations against the Corporation in an amount not to exceed the amount of the Parity Revenue Obligations' Claims shall be collected, enforced and received by the holders of the Inferior Lien Obligations as trustee for the holders of the Parity Revenue Obligations and shall be paid over to the holders of the Parity Revenue Obligations on account of the Parity Revenue Obligations and each holder of Inferior Lien Obligations by acceptance of such obligation agrees to turn over to the holders of the Parity Revenue Obligations on account of the Parity Revenue Obligations, funds or money that may be received by the holder of the Parity Revenue Obligations from the Corporation, or for or on behalf of the Corporation, at any time when such funds or money are required under the terms hereof to be paid to the holders of the Parity Revenue Obligation; and

(7) the holders of the Inferior Lien Obligations agree not to sell, assign, transfer or endorse any of their claims, no matter how evidenced, to anyone except subject to the terms and conditions of paragraphs (1)-(7) of this Section 19 and agree not to join in any petition of bankruptcy or any assignment for the benefit of creditors, or any creditors' agreement or to take any lien or other security on any of the Corporation's property at any time when any Parity Revenue Obligations' Claims remain outstanding.

SECTION 20: Confirmation and Levy of Sales Tax. (a) The Board hereby represents that the City has duly complied with the provisions of the Act for the levy of the Sales Tax at the rate voted at the election held by and within the City on May 5, 2001, and such Sales Tax is being imposed within the corporate limits of the City and the receipts of such Sales Tax are being remitted to the City by the Comptroller of Public Accounts on a monthly basis.

A. While any Bonds are Outstanding or amounts are owed to the Insurer, the Corporation covenants, agrees and warrants to take and pursue all action permissible to cause the Sales Tax, at said rate or at a higher rate if legally permitted, to be levied and collected continuously, in the manner and to the maximum extent permitted by law, and to cause no reduction, abatement or exemption in the Sales Tax or rate of tax below the rate stated, confirmed and ordered in subsection (a) of this Section to be ordered or permitted while any Bonds shall remain Outstanding.

B. If hereafter authorized by law to apply, impose and levy the Sales Tax on any taxable items or transactions that are not subject to the Sales Tax on the date of the adoption hereof, to the extent it legally may do so, the Corporation agrees to use its best efforts to cause the City to take such action as may be required to subject such taxable items or transactions to the Sales Tax.

C. The Corporation agrees to take and pursue all action legally permissible to cause the Sales Tax to be collected and remitted and deposited as herein required and as required by the Act, at the earliest and most frequent times permitted by Applicable Law.

D. The Corporation agrees to use its best efforts to cause the City to comply with the Act and shall cause the Gross Sales Tax Revenues to be deposited to the credit of the Pledged Revenue Fund in their entirety immediately upon receipt by the City. In the alternative and if legally authorized, the Corporation shall, by appropriate notice, direction, request or other legal method, use its good-faith efforts to cause the Comptroller of Public Accounts of the State of Texas to pay all Gross Sales Tax Revenues directly to the Corporation for deposit to the Pledged Revenue Fund.

SECTION 21: Records and Accounts. The Corporation hereby covenants and agrees that while any of the Bonds are Outstanding, it will keep and maintain complete records and accounts in accordance with generally accepted accounting principles, and following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of certified public accountants. Each such audit, in addition to whatever other matters may be thought proper by the accountant, shall particularly include the following:

A. A statement in reasonable detail regarding the receipt and disbursement of the Pledged Revenues for such Fiscal Year; and

B. A balance sheet for the Corporation as of the end of such Fiscal Year.

Such annual audit of the records and accounts of the Corporation shall be in the form of a report and be accompanied by an opinion of the accountant to the effect that such examination was made in accordance with generally accepted auditing standards and contain a statement to the effect that in the course of making the examination necessary for the report and opinion, the accountant obtained no knowledge of any default of the Corporation on the Bonds or in the fulfillment of any of the terms, covenants or provisions of this Resolution, or under any other evidence of indebtedness, or of any event which, with notice or lapse of time, or both, would constitute a failure of the Corporation to comply with the provisions of this Resolution or if, in the opinion of the accountants, any such failure to comply with a covenant or agreement hereof, a statement as to the nature and status thereof shall be included.

Copies of each annual audit report shall be furnished upon written request, to any Holders of any of the Bonds. The audits herein required shall be made within 180 days following the close of each Fiscal Year insofar as is possible.

The Holders of any Bonds or any duly authorized agent or agents of such Holders shall have the right to inspect such records, accounts and data of the Corporation during regular business hours.

SECTION 22: Representations as to Security for the Bonds. (a) The Corporation represents and warrants that, except for the Bonds and any Additional Parity Obligations hereafter issued by the Corporation in accordance with the provisions hereunder, the Pledged Revenues are and will be and remain free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge and lien created in or authorized by this Resolution except as expressly provided herein.

A. The Bonds and the provisions of this Resolution are and will be the valid and legally enforceable obligations of the Corporation in accordance with their terms and the terms of this

Resolution, subject only to any applicable bankruptcy or insolvency laws or to any laws affecting creditors rights generally.

B. The Corporation shall at all times, to the extent permitted by Applicable Law, defend, preserve and protect the pledge of the Pledged Revenues and all the rights of the Holders against all claims and demands of all persons whomsoever.

C. The Corporation will take, and use its best efforts to cause the City to take, all steps reasonably necessary and appropriate to collect all delinquencies in the collection of the Sales Tax to the fullest extent permitted by Applicable Law.

D. The provisions, covenants, pledge and lien on and against the Pledged Revenues, as herein set forth, are established and shall be for the equal benefit, protection and security of the owners and holders of Parity Revenue Obligations and the Insurer without distinction as to priority and rights under this Resolution.

E. The Parity Revenue Obligations shall constitute limited and special obligations of the Corporation, payable solely from, and equally and ratably secured by a parity pledge of and lien on, the Pledged Revenues, and not from any other revenues, properties or income of the Corporation. The Bonds may not be paid in whole or in part from any property taxes raised or to be raised by the City and shall not constitute debts or obligations of the State of Texas or of the City, and the Holders, shall never have the right to demand payment out of any funds raised or to be raised by any system of ad valorem taxation. This Resolution or any subsequent agreement entered into by the Corporation shall not in any manner provide a grant, conveyance, transfer, mortgage, encumbrance, pledge, or assignment of property owned by the City.

SECTION 23: Satisfaction of Obligation of Corporation. If the Corporation shall pay or cause to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and interest on the Bonds and all amounts due to the Insurer, at the times and in the manner stipulated in this Resolution, then the pledge of the Pledged Revenues under this Resolution and all other obligations of the Corporation to the Holders shall thereupon cease, terminate, and be discharged and satisfied.

The Bonds, or any principal amount(s) thereof, shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such Bonds or the principal amount(s) thereof at Stated Maturity or to the redemption date therefor, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar or an authorized escrow agent, or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities have, in the case of a net defeasance, been certified by an independent accounting firm or another qualified financial institution (including the Corporation's financial advisor) to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any money deposited therewith, if any, to pay when due the principal of and interest on such Bonds, or the principal amount(s) thereof, on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof for the Bonds. The Corporation covenants that no deposit of moneys or Governmental Securities will be made under

this Section and no use made of any such deposit which would cause the Bonds to be treated as “arbitrage bonds” within the meaning of section 148 of the Internal Revenue Code of 1986, as amended, or regulations adopted pursuant thereto (to the extent the Additional Parity Obligations are issued on a tax-exempt basis). In the event of a gross defeasance of the Bonds, the Corporation shall deliver a certificate from its financial advisor, the Paying Agent/Registrar, or another qualified third party concerning the deposit of cash and/or Government Securities to pay, when due, the principal of, redemption premium (if any), and interest due on any defeased Bonds. As and to the extent applicable, if at all, the Corporation covenants that no deposit of money or Government Securities will be made under this Section and no use made of any such deposit which would cause the Bonds to be treated as arbitrage bonds within the meaning of section 148 of the Code (as defined in Section 18).

Any money so deposited with the Paying Agent/ Registrar, or an authorized escrow agent, and all income from Government Obligations held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section in excess of the amount required for the payment of the Bonds shall be remitted to the Corporation or deposited as directed by the Corporation. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of and interest on the Bonds and remaining unclaimed for a period of four (4) years after the Stated Maturity, or applicable redemption date, of the Bonds such money was deposited and are held in trust to pay shall, upon the request of the Corporation, be remitted to the Corporation against a written receipt therefor. Notwithstanding the above and foregoing, any remittance of funds from the Paying Agent/Registrar to the Corporation shall be subject to any applicable unclaimed property laws of the State of Texas.

Notwithstanding any other provision of this Resolution to the contrary, it is hereby provided that any determination not to redeem defeased Bonds that is made in conjunction with the payment arrangements specified in (i) or (ii) above shall not be irrevocable, provided that: (1) in the proceedings providing for such defeasance, the Corporation expressly reserves the right to call the defeased Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the defeased Bonds immediately following the defeasance; (3) directs that notice of the reservation be included in any redemption notices that it authorizes; and (4) at the time of the redemption, satisfies the conditions of (i) or (ii) above with respect to such defeased debt as though it was being defeased at the time of the exercise of the option to redeem the defeased Bonds, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the defeased Bonds.

SECTION 24: Resolution a Contract - Amendments. This Resolution shall constitute a contract with the Holders from time to time, be binding on the Corporation, and shall not be amended or repealed by the Corporation while any Bond remains Outstanding except as permitted in this Section. The Corporation, may, without the consent of or notice to any Holders, from time to time and at any time, amend this Resolution in any manner not detrimental to the interests of the Holders and the Insurer, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the Corporation may, with the written consent from the Insurer and the owners holding a majority in aggregate principal amount of the Parity Revenue Obligations then Outstanding affected thereby, amend, add to, or rescind any of the provisions of this Resolution; provided that, without the written consent of the Insurer and all Holders of Outstanding Bonds effected, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal

amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (2) give any preference to any Parity Revenue Obligation over any other Parity Revenue Obligation, or (3) reduce the aggregate principal amount of Bonds or Additional Parity Obligations, as the case may be, required to be held for consent to any such amendment, addition, or rescission.

SECTION 25: Mutilated - Destroyed - Lost and Stolen Bonds. In case any Bond shall be mutilated, or destroyed, lost or stolen, the Paying Agent/Registrar may execute and deliver a replacement Bond of like form and tenor, and in the same denomination and bearing a number not contemporaneously outstanding, in exchange and substitution for such mutilated Bond, or in lieu of and in substitution for such destroyed, lost or stolen Bond, only upon the approval of the Corporation and after (i) the filing by the Holder thereof with the Paying Agent/Registrar of evidence satisfactory to the Paying Agent/Registrar of the destruction, loss or theft of such Bond, and of the authenticity of the ownership thereof and (ii) the furnishing to the Paying Agent/Registrar of indemnification in an amount satisfactory to hold the Corporation and the Paying Agent/Registrar harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Bond shall be borne by the Holder of the Bond mutilated, or destroyed, lost or stolen.

Every new Bond issued pursuant to this Section in lieu of any mutilated, destroyed, lost, or stolen Bond shall constitute a replacement of the prior obligation of the Corporation, whether or not the mutilated, destroyed, lost, or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Resolution equally and ratably with all other Outstanding Bonds.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost, or stolen Bonds.

SECTION 26: Events of Default and Remedies.

A. Events of Default. Under this Resolution, each of the following occurrences or events is an “Event of Default”:

(1) The failure to make payment of the principal of, or interest on, any of the Bonds or Additional Parity Obligations, when the same is due and payable;

(2) The failure to make a deposit in the Bond Fund or Reserve Fund, in the amounts and at the times required by Sections 12 and 13, respectively and the continuation of such failure for a period of 30 days;

(3) The failure to make payment of the principal of, or interest on, any of the Inferior Lien Obligations or when the same is due and payable;

(4) Default in the performance or observance of any covenant, agreement or obligation of the Corporation under this Resolution (other than those in clauses (1) and (2) of this Section (A), and the continuation thereof for a period of sixty (60) days after written notice specifying such default has been provided to the Corporation by the Insurer or by the Holders (51%) and requesting that the default be remedied; provided that such

sixty (60) day period shall not include any period of time during which the Corporation or the Board is prevented by reason of Force Majeure (as defined below) at the time from performing or observing the covenant, condition or agreement with respect to which any default exists but during which the Corporation is diligently attempting to cure such default;

(5) An order of relief shall be issued by the Bankruptcy Court of the United States District Court having jurisdiction, granting the Corporation any relief under any Applicable Law relating to the bankruptcy of governmental units of the State of Texas, or any other court having valid jurisdiction shall issue an order or decree under applicable federal or state law providing for the appointment of a receiver, liquidator, assignee, trustee, sequestrator, or other similar official for the Corporation or any substantial part of its property, affairs or assets, and the continuance of any such decree or order unstayed and in effect for a period of 90 consecutive days; or

(6) The Corporation shall have consented to the institution of proceedings in bankruptcy against it, or shall have consented to the institution of any insolvency proceeding against it under any federal or state insolvency laws, or shall have consented to the filing of any petition, application or complaint seeking the appointment of a receiver, liquidator, assignee, trustee, sequestrator or other similar official for the Corporation or of any substantial part of its property, affairs or assets.

For purposes of this Resolution, “Force Majeure” means any act of God or the public enemy; strike, lockout, work slowdown or stoppage or other labor dispute; insurrection, riot or other civil disturbance; order of the government of the United States or of any state thereof or order of any other civil or military authority; failure of a public utility; or other condition or event beyond the reasonable control of the Corporation or the Board, other than a financial condition, business condition or condition or event constituting frustration of purpose.

B. Remedies for Event of Default.

(1) Upon the occurrence and continuance of any Event of Default, the Paying Agent/Registrar may (a) proceed against the Corporation for the purpose of protecting and enforcing the rights of all of the Holders under this Resolution, by action seeking mandamus or by other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief to the extent permitted by Applicable Law, including, but not limited to, the specific performance of any covenant or agreement contained herein, or injunction, or, in the appropriate case, for the appointment of a receiver (with the powers established in Section 28(a) of the Act) or administrator of the affairs, properties and assets of the Corporation seeking the better management of the affairs of the Corporation in order to increase the likelihood that such default will be cured and that all Bonds will be thereafter paid in a timely manner and in full, and (b) exercise any other rights and remedies available under Applicable Law (including, without limitation, any available to a secured party under the uniform commercial code).

(2) From and after the 30th day after any Event of Default under this Resolution (for which a remedy is required or is sought under subsection (1)) has been cured, the Corporation will be restored to its former position under this Resolution prior to such

default. Any proceedings theretofore commenced for relief are to be abandoned and dismissed by the Paying Agent/Registrar within 30 days after such default has been cured.

(3) The right to accelerate the maturity of any Bond is not granted in this Resolution.

C. Restriction on Holder's Action.

(1) Except as provided in subsections (2) and (3) of this Section 26.C, all remedies available upon an Event of Default shall be exercised solely by the Paying Agent/Registrar, on behalf of the Holders of all Outstanding Parity Revenue Obligations, and no Holder of any Outstanding Parity Revenue Obligations has any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of this Resolution, the execution of any lien or security interest provided by this Resolution or for any other remedy under this Resolution, unless:

(a) such Holder shall have previously given to the Paying Agent/Registrar written notice of the happening of an Event of Default;

(b) the Holders of at least 25% in principal amount of the Parity Revenue Obligations then Outstanding shall have (A) filed a written request with the Paying Agent/Registrar, and shall have offered the Paying Agent/Registrar reasonable opportunity to exercise the powers available under this Resolution or Applicable Law or to institute such action, suit or proceeding in the Paying Agent/Registrar's own name, and (B) offered to the Paying Agent/Registrar security and indemnity satisfactory to the Paying Agent/Registrar against the costs, expenses and liabilities to be incurred in connection with such suit, action or proceeding; and

(c) the Paying Agent/Registrar shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity;

provided that, no Holder of Parity Revenue Obligations shall have any right in any manner whatever by his action to affect, disturb or prejudice the pledge and security interests created by this Resolution, except in the manner herein provided (with the prior written consent of the Insurer) and, further provided that, all proceedings at law or in equity to enforce any provisions of this Resolution shall be instituted or maintained in the manner provided in this Resolution and for the equal benefit of all Holders of the Outstanding Bonds.

(2) Any Holder of Parity Revenue Obligations has the right individually and in his own name to (a) enforce a Paying Agent/Registrar's obligation to make payment of Parity Revenue Obligations when due from funds available therefor, and (b) perfect such Holder's claim on the Pledged Revenues for matured and unpaid amounts by direct action on their Parity Revenue Obligation.

(3) During any period in which all Parity Revenue Obligations Outstanding under this Resolution shall be owned by a single Holder, such Holder may proceed to

enforce all rights and remedies available hereunder without regard to the restrictions set forth in this Section 26.C.

D. Application of Pledged Revenues and Other Money After Default.

(1) During the continuance of an Event of Default, all money, securities, funds and the Pledged Revenues and the income therefrom which are received by the Paying Agent/Registrar under this Resolution shall be applied by the Paying Agent/Registrar as follows and in the following order:

(a) to the payment of amounts then due to the Paying Agent/Registrar;

(b) to the payment ratably of all unpaid installments of interest then due on the Parity Revenue Obligations, without discrimination or preference among the Holders entitled to such payment;

(c) to the payment of all principal and premium, if any, then due on the Parity Revenue Obligations, together with interest on such overdue principal from the respective dates upon which such principal became due, and if the amount available is not sufficient to pay in full such amounts on any particular date, then to the payment ratably according to the amount of principal due on such date, without discrimination or preference among the Holders entitled to such payment;

(d) to the payment of all amounts due to the Insurer not paid pursuant to (b) and (c) above;

(e) to the payment ratably of all unpaid installments of interest then due on the Outstanding Inferior Lien Obligations, without discrimination or preference among the Holders entitled to such payment;

(f) to the payment of all principal and premium, if any, then due on the Outstanding Inferior Lien Obligations, together with interest on such overdue principal from the respective dates upon which such principal became due, and if the amount available is not sufficient to pay in full such amounts on any particular date, then to the payment ratably according to the amount of principal due on such date, without discrimination or preference among the Holders entitled to such payment;

(g) to the extent that the principal of all of the Parity Revenue Obligations shall not have become due and payable, to make the deposits in the Bond Fund and Reserve Fund, in the amounts and in the order of priority required by Section 11 hereof, and if the amount available is not sufficient to make all such deposits in full, then such deposits shall be made ratably among such funds or accounts, subject to the priority given to the Bond Fund over the Reserve Fund and to each of such funds over any other funds or accounts.

(2) Within ten (10) days of receipt of such good and available funds, the Paying Agent/Registrar may fix a record and payment date for any payment to be made to Holders pursuant to this Section.

(3) The restoration of the Corporation to its prior position after any and all Events of Default have been cured, does not extend to or affect any subsequent default under this Resolution or impair any right consequent thereon.

E. Notice of Event of Default. The Corporation is required to promptly give to the Paying Agent/Registrar, notice of each Event of Default under this Resolution, unless such Event of Default shall have been remedied or cured before the giving of such notice.

SECTION 27: Taxable Obligations. The Bonds are not “state or local bonds” within the meaning of section 103(a) and (c) of the Internal Revenue Code of 1986, as amended (the *Code*); therefore, the interest on the Bonds is not excludable from the gross income of the holders thereof for federal income tax purposes.

SECTION 28: Notices and Other Communications.

A. All notices, consents, approvals, requests and other communications under this Resolution or with respect to the Bonds under this Resolution shall be in writing and delivered by registered or certified mail, return receipt, postage paid, by telex, telecopy, telegram, or other electronic transmission, or by express or personal delivery, addressed as follows:

(1) if to the Paying Agent/Registrar, at the address specified in the Paying Agent/Registrar Agreement.

(2) if to the City; at:

City of Joshua, Texas
101 South Main Street
Joshua, Texas 76058
Attention: City Manager

(3) if to the Corporation; at

Joshua Type A Economic Development Corporation
101 South Main Street
Joshua, Texas 76058
Attention: Executive Director of Economic Development

(4) if to a Rating Agency:

S&P Global Ratings,
7 World Trade Center
New York, New York 10007

B. A duplicate of each communication given under this Resolution to anyone other than the Paying Agent/Registrar shall also be delivered to the Paying Agent/Registrar. Notices to the Paying Agent/Registrar are effective only upon actual receipt. Such communication shall identify this Resolution, and the section thereof which is the subject of the communication.

C. Each Person to whom communications are delivered pursuant to this Resolution may designate any additional or different addresses or telecopy numbers to which subsequent communications under this Resolution shall be delivered by giving at least ten days' advance notice thereof to each affected party.

D. Except as provided in Subsection C. herein, any communication delivered by mail in compliance with this section is deemed to have been delivered as of the date of deposit in the mail. Any communication delivered by facsimile or other electronic transmission is deemed to have been delivered at the time a confirmation of receipt is generated by the sending mechanism or is obtained by other means.

E. Notice or other communications to any Holder under this Resolution shall be delivered by first class United States mail, postage paid, addressed to such Holder's address appearing in the Security Register.

F. A provision of this Resolution that provides for a different method of giving notice or otherwise conflicts with this section supersedes this section to the extent of the conflict.

SECTION 29: Notices to Holders - Waiver. Wherever this Resolution provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and sent by United States Mail, first class postage prepaid, to the address of each Holder as it appears in the Security Register.

In any case where notice to Holders is given by mail, neither the failure to mail such notice to any particular Holders, nor any defect in any notice so mailed, shall affect the sufficiency of such notice with respect to all other Bonds. Where this Resolution provides for notice in any manner, such notice may be waived in writing by the Holder entitled to receive such notice, either before or after the event with respect to which such notice is given, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Paying Agent/Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

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APPENDIX E
EXCERPTS FROM THE CITY OF JOSHUA, TEXAS
AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED
SEPTEMBER 30, 2016

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PATTILLO, BROWN & HILL, L.L.P.
 CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
 Members of the City Council
 City of Joshua, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Joshua, Texas, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Joshua's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Joshua, Texas, as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, and the schedule of contributions on pages 4 through 10 and 39 through 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Joshua, Texas' basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2017, on our consideration of the City of Joshua, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Joshua's internal control over financial reporting and compliance.

Pattillo, Brown + Hill, L.L.P.

February 15, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Joshua (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2016. We encourage readers to consider the information presented here in conjunction with the City's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources for the City of Joshua exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$9,761,519. Of this amount, \$1,480,350 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City of Joshua's net position decreased by \$5,137. This decrease is due to a decrease in capital grants and contributions.
- As of the close of the current fiscal year, the City of Joshua's governmental funds reported combined ending fund balances of \$2,197,240, a decrease of \$541,126 in comparison with the prior year. Approximately 58.79% of this amount, \$1,291,796 is available for spending at the City's discretion (unassigned fund balance)
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$1,291,796 or 40.44% of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City of Joshua, Texas' basic financial statements. City of Joshua's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Joshua's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City of Joshua's assets, liabilities and deferred inflows/outflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Joshua is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). Both the statement of net position and the statement of activities are prepared utilizing the full accrual basis of accounting.

The government-wide financial statements of the City include the *governmental activities*. Most of the City's basic services are included here, such as administration, police and fire, municipal courts, and public works. Property taxes, sales taxes, charges for services, and grants finance most of these activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. City of Joshua, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Joshua can be divided into one categories: governmental funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Joshua maintains 8 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, Capital Improvement Fund, Type A Economic Development Corporation Fund and Type B Community Development Corporation Fund, which are considered to be major funds. Data from the other 3 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Joshua adopts an annual appropriated budget for its General Fund, Debt Service Fund, Type A Economic Development Corporation Fund and Type B Community Development Corporation Fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with the budget.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found in the financial section.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, over time net position may serve as a useful indicator of a government's financial position. In the case of the City of Joshua, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,761,519 at the close of the most recent fiscal year. By far the largest portion of the City's net position (\$7,563,581 or 77.48%) reflects its investment in capital assets (e.g. land, building, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Joshua, Texas' Net Position

	Governmental Activities	
	2016	2015
Current assets	\$ 2,381,504	\$ 3,422,965
Noncurrent assets	18,422,724	18,635,460
Total assets	<u>20,804,228</u>	<u>22,058,425</u>
Total deferred outflows of resources	<u>298,855</u>	<u>81,732</u>
Current liabilities	1,016,927	1,545,790
Noncurrent liabilities	10,300,468	10,801,251
Total liabilities	<u>11,317,395</u>	<u>12,347,041</u>
Total deferred inflows of resources	<u>24,169</u>	<u>26,460</u>
Net position		
Net investment in capital assets	7,563,581	7,282,550
Restricted	717,588	1,004,066
Unrestricted	<u>1,480,350</u>	<u>1,480,040</u>
Total net position	<u>\$ 9,761,519</u>	<u>\$ 9,766,656</u>

An additional portion of the City of Joshua's net position (\$717,588 or 7.35%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$1,480,350 or 15.17%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City reported a positive balance in all three categories of net position.

During the current fiscal year, the City's net position decreased by \$5,137. This decrease represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This decrease follows a prior year increase of \$327,027 due to increases in ongoing revenues that were outstripped by similar increases in ongoing expenses.

City of Joshua, Texas' Changes in Net Position

	Governmental Activities	
	2016	2015
Revenues		
Program revenues:		
Charges for services	\$ 720,630	\$ 593,269
Operating grant and contributions	3,447	5,779
Capital grants and contributions	-	422,960
General revenues:		
Taxes	3,594,972	3,536,341
Franchise fees	304,569	320,004
Interest	3,930	5,191
Other	81,307	69,413
Total revenues	4,708,855	4,952,957
Expenditures		
General government	900,999	881,109
Public safety	1,095,092	1,063,475
Public works	737,150	721,253
Municipal court	158,378	144,473
Development services	274,860	263,220
Animal control	158,757	160,058
Fire department	530,595	606,672
Economic development	394,193	309,783
Parks and recreation	132,422	124,856
Interest on long-term	331,546	351,031
Total expenditures	4,713,992	4,625,930
Change in net position	(5,137)	327,027
Net position, beginning	9,766,656	9,211,996
Prior period adjustment	-	227,633
Net position, ending	\$ 9,761,519	\$ 9,766,656

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds – The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balances may serve as a useful measure of a government's net resources at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,197,240. \$19,993 of this total is nonspendable to indicate the amount cannot be spent and \$885,451 is restricted to indicate constraints placed on the use of the resources either externally imposed by creditors, by laws or regulations of other governments imposed or imposed by law through constitutional provisions or enabling legislation. The remaining balance of \$1,291,796 constitutes unassigned fund balance.

Of the \$2,197,240 ending fund balance, \$154,330 is accounted for in non-major governmental funds. The General Fund balance is \$1,518,027 at year end – an increase of \$116,970. This increase was more than the prior year decrease of \$148,844 due to a combination of increased property taxes and charges for services, as well as decreased general government expenditures. These are offset by increases in public safety, public works, and debt service principal expenditures.

The Debt Service Fund balance decreased \$84,293 to \$24,217 at year end. This decrease is primarily the result of increased principal expense. The Capital Improvement Fund balance decreased \$314,647 to a year-end total of \$162,203. This decrease is caused by capital outlay expenditures from prior debt issuances. The Type A Economic Development Corporation Fund balance decreased \$106,664 to a year-end total of \$104,538. This decrease is related to the capital outlay expenditures for the Park & Ride Project. The Type B Community Development Corporation Fund balance decreased \$161,186 to a year-end total of \$233,925. This decrease is primarily related to the decrease in sales tax revenue and an increase in economic development expenditures.

General Fund budgetary highlights. The actual expenditures for the year were \$3,194,479, which was \$97,971 under budget.

For FY 2015-2016, the actual revenues were \$3,321,043 as compared to the budgeted amount of \$3,187,600. Contributing to the variance was lower than anticipated property taxes (\$23,149 less than the budget), sales taxes (\$41,942 less than the budget) and fines and forfeitures (\$60,340 less than the budget). Also contributing to the variance was higher than anticipated revenues from franchise fees (\$10,599 higher than the budget), charges for services (\$221,234 higher than budget) and miscellaneous revenues (\$28,317 higher than budget).

With revenues above appropriations and expenditures below appropriations, the fund balance in the General Fund increased by \$116,970, which was \$413,270 better than the final budgeted decrease.

CAPITAL ASSETS

At year-end, the City had invested \$18,382,563 (net of accumulated depreciation) in a broad range of capital assets, including land, construction in progress, equipment, buildings and vehicles. Additional information on the City's capital assets is presented in the notes to the financial statements.

City of Joshua, Texas' Capital Assets

	Governmental Activities	
	2016	2015
Land	\$ 2,346,117	\$ 2,346,117
Construction in progress	585,674	1,191,526
Buildings and improvements	12,417,108	12,417,108
Furniture and equipment	2,035,933	2,003,175
Streets and improvements	6,221,817	5,195,145
Vehicles	1,444,494	1,328,640
Totals at historical cost	25,051,143	24,481,711
Total accumulated depreciation	(6,668,580)	(5,889,147)
Total net assets	\$ 18,382,563	\$ 18,592,564

LONG-TERM DEBT

At year-end, the City had \$10,717,998 in outstanding debt as shown in the table below. Of this amount, \$10,575,000 represents bonded debt backed by the full faith and credit of the City. The City's capitalized lease obligations of \$142,998 pertains to the purchase of police radios, a Duramax patcher, a Chevrolet Tahoe for Fire Marshal, a Ford Explorer Interceptor for Police Department, and a Ford F-350 for Public Works. More detailed information about the City's long-term debt is presented in the notes to the financial statements.

Table A-4
City of Joshua, Texas' Long-term Debt

	Governmental Activities	
	2016	2015
Bonds payable	\$ 10,575,000	\$ 11,320,000
Notes payable	-	85,000
Capital leases	142,999	101,922
Total long-term debt	\$ 10,717,999	\$ 11,506,922

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- Certified appraised values for the fiscal year 2017 budget preparation remain materially flat, increasing slightly by 0.31% from 2016. An annexation of a large portion of the City's extraterritorial jurisdiction (ETJ) in the prior year was offset by a significant decrease in mineral rights assessed values of approximately \$8.63M or a decline of 65%.
- The City's ad valorem tax rate for 2017 remained at \$0.77527 per \$100 of assessed value. The 2017 rate is based on maintenance and operations tax of \$0.530997, and an interest and sinking rate of \$0.244273.
- Sales tax revenues were expected to remain materially flat, declining slightly by 0.9% compared to the fiscal year 2016 (amended) budget.

- Due to a significant amount of residential development, both single and multi-family, revenue from permits and fees is expected to increase dramatically by approximately 75% compared to the fiscal year 2016 (amended) budget.

These indicators were taken into account when adopting the General Fund Budget for fiscal year 2016. Amounts available for appropriation in the General Fund budget are \$3,352,970, which is a \$165,370 increase from the prior year.

Mid-year analysis of sales tax data for FY 2016 necessitated an adjustment (lowering) of projected year-end revenues that were formally accounted for in the amended budget. Management's analysis and evaluation of that data affected assumptions for the following fiscal year with regard to budget preparation. Internal year-end 2016 and current fiscal year 2017 data suggest that this year-over-year decline (2015-2016) will reverse course and that the city appears to have reached sales tax revenues "floor". Completion of a new 186-unit apartment complex and a project to extend Plum Street west of HWY 174 are projected to bolster commercial activity within the TIF District of Joshua Station, serving as a catalyst for additional commercial development in the area. Multiple housing projects, both single-family and multifamily, with a significant number being completed by the end of the 2017 calendar, are projected to have a positive impact on property values and tax revenues over the next two years. Additionally, the city's second annexation in as many years in the first quarter of FY 2017 will serve continue to increase property tax revenues needed to further support the city's maintenance and operations budget and capital improvements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. If you have questions about this report, or need additional financial information, please contact the City Manager at City Hall, 101 S. Main Street, Joshua, Texas 76058.

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BASIC FINANCIAL STATEMENTS

CITY OF JOSHUA, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2016

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,065,966
Receivables, net	387,867
Prepaid items	19,993
Restricted cash and cash equivalents	907,678
Total current assets	2,381,504
Noncurrent assets:	
Deferred expenses	40,161
Capital assets:	
Non-depreciable assets	2,931,791
Depreciable assets, net	15,450,772
Total noncurrent assets	18,422,724
Total assets	20,804,228
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to TMRS	298,855
Total deferred outflows of resources	298,855
LIABILITIES	
Current liabilities:	
Accounts payable	56,693
Intergovernmental payables	15,610
Accrued payroll liabilities	31,742
Accrued interest payable	58,690
Current portion of compensated absences	6,968
Current portion of long-term debt, due within one year	847,224
Total current liabilities	1,016,927
Noncurrent liabilities:	
Long-term debt, due in more than one year	9,974,567
Accreted bond premium payable	263,186
Compensated absences	62,715
Total noncurrent liabilities	10,300,468
Total liabilities	11,317,395
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to TMRS	24,169
Total deferred inflows of resources	24,169
NET POSITION	
Net investment in capital assets	7,563,581
Restricted for specific purposes	717,588
Unrestricted	1,480,350
Total net position	\$ 9,761,519

The accompanying notes are an integral part of these financial statements.

CITY OF JOSHUA, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Assets
					Governmental Activities
Governmental activities:					
General government	\$ 900,999	\$ 18,671	\$ -	\$ -	\$(882,328)
Public safety	1,095,092	68,180	548	-	(1,026,364)
Public works	737,150	-	-	-	(737,150)
Municipal court	158,378	243,835	-	-	85,457
Development services	274,860	258,183	-	-	(16,677)
Animal control	158,757	1,100	304	-	(157,353)
Fire department	530,595	130,661	2,595	-	(397,339)
Economic development	394,193	-	-	-	(394,193)
Parks and recreation	132,422	-	-	-	(132,422)
Interest on long-term debt	331,546	-	-	-	(331,546)
Total governmental activities	\$ 4,713,992	\$ 720,630	\$ 3,447	\$ -	\$(3,989,915)
General revenues:					
Taxes:					
Property, levied for general purposes					1,667,030
Property, levied for debt service					755,805
Sales					1,151,665
Other					20,472
Franchise fees					304,569
Interest					3,930
Other					81,307
Total general revenues					3,984,778
Change in net assets					(5,137)
Net position, beginning					9,766,656
Net position, ending					\$ 9,761,519

The accompanying notes are an integral part of these financial statements.

CITY OF JOSHUA, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Improvement</u>
ASSETS			
Unrestricted:			
Cash and cash equivalents	\$ 1,065,966	\$ -	\$ -
Receivables, net	257,406	17,851	-
Due from other funds	150,189	144,740	7,096
Prepaid items	19,993	-	-
Restricted:			
Cash and cash equivalents	<u>206,238</u>	<u>-</u>	<u>172,321</u>
Total assets	<u>\$ 1,699,792</u>	<u>\$ 162,591</u>	<u>\$ 179,417</u>
LIABILITIES			
Liabilities:			
Accounts payable	\$ 56,374	\$ -	\$ -
Intergovernmental payables	15,610	-	-
Accrued payroll liabilities	31,742	-	-
Due to other funds	<u>12,624</u>	<u>123,570</u>	<u>17,214</u>
Total liabilities	<u>116,350</u>	<u>123,570</u>	<u>17,214</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	38,931	14,804	-
Unavailable revenue - court fines	<u>26,484</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>65,415</u>	<u>14,804</u>	<u>-</u>
FUND BALANCES			
Fund balances:			
Nonspendable:			
Prepaid items	19,993	-	-
Restricted for:			
TIF	206,238	-	-
Debt service	-	24,217	-
Economic development	-	-	-
Capital improvements	-	-	162,203
Court security	-	-	-
Tourism	-	-	-
Unassigned	<u>1,291,796</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>1,518,027</u>	<u>24,217</u>	<u>162,203</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,699,792</u>	<u>\$ 162,591</u>	<u>\$ 179,417</u>

The accompanying notes are an integral part of these financial statements.

<u>Type A Economic Development Corporation</u>	<u>Type B Community Development Corporation</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 1,065,966
61,343	50,037	1,230	387,867
3,640	5,572	3,412	314,649
-	-	-	19,993
<u>43,134</u>	<u>332,511</u>	<u>153,474</u>	<u>907,678</u>
<u>\$ 108,117</u>	<u>\$ 388,120</u>	<u>\$ 158,116</u>	<u>\$ 2,696,153</u>
\$ -	\$ 15	\$ 304	\$ 56,693
-	-	-	15,610
-	-	-	31,742
<u>3,579</u>	<u>154,180</u>	<u>3,482</u>	<u>314,649</u>
<u>3,579</u>	<u>154,195</u>	<u>3,786</u>	<u>418,694</u>
-	-	-	53,735
-	-	-	26,484
<u>-</u>	<u>-</u>	<u>-</u>	<u>80,219</u>
-	-	-	19,993
-	-	-	206,238
-	-	-	24,217
104,538	233,925	-	338,463
-	-	-	162,203
-	-	65,386	65,386
-	-	88,944	88,944
-	-	-	1,291,796
<u>104,538</u>	<u>233,925</u>	<u>154,330</u>	<u>2,197,240</u>
<u>\$ 108,117</u>	<u>\$ 388,120</u>	<u>\$ 158,116</u>	<u>\$ 2,696,153</u>

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CITY OF JOSHUA, TEXAS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Fund balances - governmental funds \$ 2,197,240

Amounts reported for governmental activities in the Statement of Net Position are different due to the following:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds 18,382,563

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds 80,219

Long-term liabilities, including liabilities for compensated absences, bonds and notes payable, obligations under capital lease and net pension liability (asset) are not due and payable in the current period and therefore are not reported as liabilities in the funds. (10,879,974)

Certain charges related to the issuance of debt and insurance were expended but will be amortized over the life of the debt and therefore are deferred in the government wide statement 40,161

Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds (58,690)

Net position of governmental activities \$ 9,761,519

The accompanying notes are an integral part of these financial statements.

CITY OF JOSHUA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2016

	<u>General</u>	<u>Debt Service</u>	<u>Capital Improvement</u>
REVENUES			
Property taxes	\$ 1,675,376	\$ 761,465	\$ -
Sales taxes	578,808	-	-
Hotel occupancy taxes	-	-	-
Alcoholic beverage taxes	582	-	-
Fire district taxes	130,661	-	-
Franchise fees	304,569	-	-
Fines and forfeitures	224,660	-	-
Grants and contributions	3,447	-	-
Charges for services	346,134	-	-
Investment earnings	2,189	-	1,147
Miscellaneous	54,617	-	-
Total revenues	<u>3,321,043</u>	<u>761,465</u>	<u>1,147</u>
EXPENDITURES			
General government	791,627	-	-
Public safety	1,011,642	-	-
Public works	417,286	-	-
Municipal court	140,739	-	-
Development services	262,043	-	-
Animal control	137,519	-	-
Fire department	332,244	-	-
Economic development	-	-	-
Debt service:			
Principal	92,611	830,000	-
Interest	4,518	341,045	-
Capital outlay	4,250	-	438,745
Total expenditures	<u>3,194,479</u>	<u>1,171,045</u>	<u>438,745</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>126,564</u>	<u>(409,580)</u>	<u>(437,598)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from issuance of long-term debt	10,737	-	122,951
Transfers in	-	325,287	-
Transfers out	<u>(20,331)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(9,594)</u>	<u>325,287</u>	<u>122,951</u>
NET CHANGE IN FUND BALANCES	<u>116,970</u>	<u>(84,293)</u>	<u>(314,647)</u>
FUND BALANCES, BEGINNING	<u>1,401,057</u>	<u>108,510</u>	<u>476,850</u>
FUND BALANCES, ENDING	<u>\$ 1,518,027</u>	<u>\$ 24,217</u>	<u>\$ 162,203</u>

The accompanying notes are an integral part of these financial statements.

Type A Economic Development Corporation	Type B Community Development Corporation	Other Governmental	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 2,436,841
286,429	286,428	-	1,151,665
-	-	19,890	19,890
-	-	-	582
-	-	-	130,661
-	-	-	304,569
-	-	9,990	234,650
-	-	-	3,447
-	-	-	346,134
15	579	-	3,930
-	26,690	-	81,307
<u>286,444</u>	<u>313,697</u>	<u>29,880</u>	<u>4,713,676</u>
-	-	-	791,627
-	-	-	1,011,642
-	-	-	417,286
-	-	15,098	155,837
-	-	9,500	271,543
-	-	-	137,519
-	-	-	332,244
86,291	285,768	-	372,059
3,579	3,579	-	929,769
-	-	-	345,563
143,189	44,375	-	630,559
<u>233,059</u>	<u>333,722</u>	<u>24,598</u>	<u>5,395,648</u>
<u>53,385</u>	<u>(20,025)</u>	<u>5,282</u>	<u>(681,972)</u>
3,579	3,579	-	140,846
16,919	-	3,412	345,618
<u>(180,547)</u>	<u>(144,740)</u>	<u>-</u>	<u>(345,618)</u>
<u>(160,049)</u>	<u>(141,161)</u>	<u>3,412</u>	<u>140,846</u>
<u>(106,664)</u>	<u>(161,186)</u>	<u>8,694</u>	<u>(541,126)</u>
<u>211,202</u>	<u>395,111</u>	<u>145,636</u>	<u>2,738,366</u>
<u>\$ 104,538</u>	<u>\$ 233,925</u>	<u>\$ 154,330</u>	<u>\$ 2,197,240</u>

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CITY OF JOSHUA, TEXAS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Net change in fund balances - total governmental funds:	\$(541,126)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation expense in the current period.	(210,001)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	802,944
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	6,498
Certain pension expenditures are not expended in the government-wide financial statements and recorded as deferred resource outflows. This item relates to contributions made after the measurement date. Additionally, a portion of the City's unrecognized deferred resource inflows/outflows related to the pension liability/asset were amortized.	(58,631)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	<u>4,821</u>
Change in net position of governmental activities	<u>\$(5,137)</u>

The accompanying notes are an integral part of these financial statements.

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CITY OF JOSHUA, TEXAS

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Joshua, Texas (the "City") is a Home Rule city which citizens elect the mayor and six Council members at large. The City operates under the Council-City Manager form of government and provides such services as are authorized by its charter to advance the welfare, health, comfort, safety, and convenience of the City and its inhabitants.

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The more significant accounting and reporting policies and practices used by the City are described below.

A. Reporting Entity

The City's basic financial statements include all activities, organizations, and functions for which the City is considered to be financially accountable and other organizations for which the nature and significance of their relationship with the City are such that inclusion would cause the City's financial statements to be misleading or incomplete. The criteria considered in determining organizations to be reported as component units within the City's basic financial statements include whether:

- the organization is legally separate (can sue and be sued in their own name);
- the City holds the corporate powers of the organization;
- the City appoints a voting majority of the organization's board;
- the City is able to impose its will on the organization;
- the organization has the potential to impose a financial benefit/burden on the City; and
- there is a fiscal dependency by the organization on the City.

Component units are blended with the balances and transactions of the City if one of the following criterion are met:

- The component unit is substantially the same governing body as the City; or
- The component unit provides services entirely (or almost entirely) to the City or benefits the City exclusively (or almost exclusively) ; or
- The City is able to impose its will on the component unit.

The above criteria were applied to potential organizations to determine if the entity should be reported as part of the City. The following was determined:

Joshua Economic Development Corporation (JEDC) is a *blended component unit* and is reported within the City's primary government. The JEDC was formed to promote economic development within the City and the State of Texas in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, and on behalf of, the City by developing, implementing, providing and financing projects under the Development Corporation Act of 1979 as defined in Section 4A of the Act. A Board of Directors, whose members are appointed by and serve the City's governing body, makes all decisions regarding use of local revenue in undertaking projects, though the City retains oversight authority and must approve all programs and expenditures of the Corporation.

Joshua Community Development Corporation (JCDC) is a *blended component unit* and is reported within the City's primary government. The JCDC was formed exclusively for the purposes of benefiting and accomplishing public purposes of, and acting on behalf of, the City in promotion and development of public projects, approved by the voters at an election held, including, but not limited to, tourism facilities, civic center, downtown/main street renovation and/or development, drainage and related improvements, demolition of existing structures and landscaping, parks, youth center, sports facilities, public safety facilities, municipal facilities, library facilities, water, sewer and street extensions, any other project authorized under Section 4B of the Development Act of 1979, and maintenance and operation costs associated with such projects. A Board of Directors, whose members are appointed by and serve the City's governing body, makes all decisions regarding use of local revenue in undertaking projects, though the City retains oversight authority and must approve all programs and expenditures of the Corporation.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been included as part of the program expenses reported for the various functional activities. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds. Major individual Governmental Funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, sales taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

General Fund – reports as the primary fund of the City. This fund is used to account for all financial resources not reported in any other funds.

Debt Service Fund – accounts for the accumulation of financial resources for the payment of principal and interest on the City’s general obligation debt. The City annually levies ad valorem taxes restricted for the retirement of debt. This fund reports the portion of ad valorem taxes collected for debt purposes only.

Capital Improvement Fund – accounts for the proceeds from long-term financing and revenue and expenditures related to authorized construction and other capital asset acquisitions.

Economic Development Fund – established to account for sales tax revenues collected for the purposes set forth by the Joshua Economic Development Corporation.

Community Development Fund – established to account for sales tax revenues collected for the purposes set forth by the Joshua Community Development Corporation.

E. Assets, Liabilities and Net Position or Equity

Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Property taxes attach as an enforceable lien on property as of October 1. Taxes are levied each October 1 and are due and payable on or before January 31 of the following year. All unpaid taxes become delinquent February 1 of the following year. The Johnson County Tax Assessor/Collector bills and collects the City’s property taxes. Any uncollected property taxes as of September 30, which are not expected to be collected within 60 days, are recorded as taxes receivable and deferred revenue.

As a City that operates under a home-rule charter, the City has a tax rate limitation of \$2.50 per \$100 assessed valuation. For the year ended September 30, 2016, the City had a tax rate of \$0.77527 per \$100 of which \$0.532388 was allocated for general government and \$0.242882 was allocated for payment of principal and interest on general long-term debt.

Inventories and Prepaid Items

The City records purchases of utility parts and supplies as inventories, utilizing the lower of cost or market method of accounting for inventory. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Capital Assets

The City’s capital assets and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Donated assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date. The City generally capitalizes assets with a cost of \$5,000 or more as purchases and outlays occur. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. For information describing capital assets, see Note IID.

Estimated useful lives, in years, for depreciable assets are as follows:

	<u>Estimated Useful Lives</u>
Infrastructure	30 years
Buildings	50 years
Buildings improvements	20 years
Vehicles	2-15 years
Office equipment	3-15 years
Computer equipment	3-15 years

Compensated Absences

Compensated absences are reported as accrued in the government-wide financial statements. In the fund level financial statements, only matured compensated absences payable to currently terminated employees are reported.

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed during the period of issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions.

Net Position

Net Position represents the difference between assets, deferred inflows/outflows of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

In the government-wide financial statements, the City's restrictions on net position are for amounts that are not available for appropriation. The City's restricted net position is as follows:

Restricted for TIF	\$	206,238
Restricted for Debt Service		18,557
Restricted for Economic Development		338,463
Restricted for Court Security		65,386
Restricted for Tourism		88,944
Total	\$	<u>717,588</u>

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent.

The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by board resolution of the City Council, the City's highest level of decision making authority. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category.

- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five year period.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and court fines. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The City also has one type of item that qualifies for reporting in this category in the government-wide financial statements. The difference in expected and actual pension experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits

At September 30, 2016, the total carrying amounts of the City's deposits (restricted and unrestricted cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) were \$1,973,644 and the bank balances were \$2,020,612. The City's cash deposits at September 30, 2016, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments

The City is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act (the "Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local practices.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U. S. Treasury, certain U. S. Agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

Analysis of Specific Deposit and Investment Risks

Professional standards require a determination as to whether the City was exposed to the following specific investment risks at year-end and, if so, the reporting of certain related disclosures:

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year-end, the City was not exposed to a significant amount of credit risk.

Custodial Credit Risk. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At year-end, the City was not exposed to custodial credit risk.

Concentration of Credit Risk. This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end, the City was not exposed to concentration of credit risk.

Interest Rate Risk. This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to interest rate risk.

Foreign Currency Risk. This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to foreign currency risk.

B. Receivables, Uncollectible Accounts and Deferred Revenue

Sales Taxes Receivable

Sales taxes are collected and remitted to the City by the State Comptroller's office. All sales taxes are collected within 60 days of year-end. At fiscal year-end, the receivables represent taxes collected but not yet received by the City and are recorded as revenue.

Property Taxes Receivable and Deferred Revenue

Property taxes are assessed and remitted to the City by the Tarrant County Tax Assessor's office. Taxes, levied annually on October 1, are due by January 31. Major tax payments are received December through March. Lien dates for real property are in July.

Allowances for uncollectible tax receivables reported in the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off when deemed uncollectible; however, state statutes prohibit writing off real property taxes without specific authority from the Texas Legislature.

In the governmental fund level financial statements, property taxes receivable are recorded in the General Fund when assessed (October 1). At fiscal year-end, property tax receivables represent delinquent taxes. If delinquent taxes are not paid within 60 days of fiscal year-end, they are recorded as deferred revenue.

In the government-wide financial statements, property tax receivables and related revenues include all amounts due the City regardless of when cash is received.

Governmental Funds Receivables

At September 30, 2016, receivables were as follows:

	Governmental Funds					Total
	General	Debt Service	Type A Economic Development Fund	Type B Economic Development Fund	Other Governmental	
Receivables:						
Property tax	\$ 87,378	\$ 35,962	\$ -	\$ -	\$ -	\$ 123,340
Sales tax	100,074	-	50,037	50,037	-	200,148
Other taxes	-	-	-	-	1,230	1,230
Accounts	188,754	-	-	-	-	188,754
Other	757	-	11,306	-	-	12,063
Gross receivables	376,963	35,962	61,343	50,037	1,230	525,535
Less: Allowance for uncollectibles	119,557	18,111	-	-	-	137,668
Net total receivables	<u>\$ 257,406</u>	<u>\$ 17,851</u>	<u>\$ 61,343</u>	<u>\$ 50,037</u>	<u>\$ 1,230</u>	<u>\$ 387,867</u>

C. Restricted Assets

At September 30, 2016, restricted assets consisted of the following:

	<u>Governmental Activities</u>
Cash and cash equivalents:	
TIF 1	\$ 206,238
Capital improvements	172,321
Type A sales tax	43,134
Type B sales tax	332,511
Court security	65,386
Hotel occupancy	<u>88,088</u>
 Total restricted cash and cash equivalents	 <u>\$ 907,678</u>

D. Capital Assets

Capital asset activity for the year ended September 30, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 2,346,117	\$ -	\$ -	\$ -	\$ 2,346,117
Construction in progress	<u>1,191,526</u>	<u>420,820</u>	<u>-</u>	<u>(1,026,672)</u>	<u>585,674</u>
Total capital assets not being depreciated	<u>3,537,643</u>	<u>420,820</u>	<u>-</u>	<u>(1,026,672)</u>	<u>2,931,791</u>
Capital assets being depreciated:					
Buildings and improvements	12,417,108	-	-	-	12,417,108
Furniture and equipment	2,003,175	32,758	-	-	2,035,933
Streets and improvements	5,195,145	-	-	1,026,672	6,221,817
Vehicles and work equipment	<u>1,328,640</u>	<u>127,610</u>	<u>11,756</u>	<u>-</u>	<u>1,444,494</u>
Total capital assets being depreciated	<u>20,944,068</u>	<u>160,368</u>	<u>11,756</u>	<u>1,026,672</u>	<u>22,119,352</u>
Less: accumulated depreciation for:					
Buildings and improvements	(1,389,330)	(290,280)	-	-	(1,679,610)
Furniture and equipment	(1,685,749)	(72,254)	-	-	(1,758,003)
Streets and improvements	(1,857,814)	(307,505)	-	-	(2,165,319)
Vehicles and work equipment	<u>(956,254)</u>	<u>(121,150)</u>	<u>(11,756)</u>	<u>-</u>	<u>(1,065,648)</u>
Total accumulated depreciation	<u>(5,889,147)</u>	<u>(791,189)</u>	<u>(11,756)</u>	<u>-</u>	<u>(6,668,580)</u>
 Total capital assets being depreciated, net	 <u>15,054,921</u>	 <u>(630,821)</u>	 <u>-</u>	 <u>1,026,672</u>	 <u>15,450,772</u>
 Governmental activities capital assets, net	 <u>\$ 18,592,564</u>	 <u>\$(210,001)</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 18,382,563</u>

At September 30, 2016, depreciation was charged to functions as follows:

General government	\$ 97,829
Public safety	51,236
Public works	313,669
Animal control	19,159
Fire department	176,874
Parks and recreation	<u>132,422</u>
Total depreciation expense	<u>\$ 791,189</u>

E. Long-term Obligations

During the fiscal year ended September 30, 2013, the City issued combination tax and limited pledge revenue certificates of obligation of \$5,000,000. The Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes. They will be paid at an interest rate of 2.0% to 2.75% maturing August 31, 2033.

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2016, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
General obligation bonds	\$ 11,320,000	\$ -	\$ 745,000	\$ 10,575,000	\$ 765,000
Capital leases	101,922	140,846	99,769	142,999	82,224
Notes	85,000	-	85,000	-	-
Net pension liability	(174,253)	353,584	75,539	103,792	-
Compensated absences	<u>76,185</u>	<u>58,646</u>	<u>65,148</u>	<u>69,683</u>	<u>6,968</u>
	<u>\$ 11,408,854</u>	<u>\$ 553,076</u>	<u>\$ 1,070,456</u>	<u>\$ 10,891,474</u>	<u>\$ 854,192</u>

The associated premium on bonds, totaling \$263,186 as of September 30, 2016, is being amortized over the life of the bonds.

Debt service requirements on long-term debt at September 30, 2016, are as follows:

Bonds and Notes Payable

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2017	765,000	317,942	1,082,942
2018	700,000	294,617	994,617
2019	730,000	273,507	1,003,507
2020	750,000	251,211	1,001,211
2021	535,000	232,381	767,381
2022-2026	2,965,000	913,056	3,878,056
2027-2031	3,290,000	401,353	3,691,353
2032-2036	840,000	31,388	871,388
Totals	\$ 10,575,000	\$ 2,715,455	\$ 13,290,455

The effective interest rate on outstanding bonds and notes ranged from 0.70% - 4.00% at September 30, 2016.

Capital Leases

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2017	\$ 82,224	\$ 5,063	\$ 87,287
2018	30,372	2,255	32,627
2019	20,253	1,162	21,415
2020	10,150	429	10,579
Totals	\$ 142,999	\$ 8,909	\$ 151,908

The effective interest rate on capital leases outstanding ranges from 5.29% to 5.50% annually.

F. Interfund Balances and Activity

Balances due to and due from other funds at September 30, 2016, consisted of the following:

Due to Fund	Due from Fund	Amount
General Fund	Nonmajor Funds	\$ 3,482
Type A Economic Development	General Fund	3,640
General Fund	Type B Economic Development	5,923
General Fund	Debt Service Fund	123,570
General Fund	Capital Improvements	17,214
Capital Improvements	Type B Economic Development	3,517
Type B Economic Development	General Fund	5,572
Debt Service Fund	Type B Economic Development	144,740
Capital Improvements	Type A Economic Development	3,579
Nonmajor Funds	General Fund	3,412
Total		\$ 314,649

All amounts due are scheduled to be repaid within one year.

Transfers to and from other funds at September 30, 2016, consisted of the following:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
Type A Economic Development	Debt Service	\$ 180,547
Type B Economic Development	Debt Service	144,740
General Fund	Type A Economic Development	16,919
General Fund	Nonmajor Funds	<u>3,412</u>
Total		<u>\$ 345,618</u>

III. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, error and omissions, injuries to employees, and natural disasters. During fiscal year 2014, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the state as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

B. Defined Benefit Pension Policies

Plan Description

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.org.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in over of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

A summary of plan provisions for the City are as follows:

Employee deposit rate	7%
Matching ratio (City to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years to any age, 5 years at age 60 and above
Updated service credit	0%
Annuity increase to retirees	0% of CPI

The City does not participate in Social Security.

Employees covered by benefit terms

At the December 31, 2015 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	5
Inactive employees entitled to but not yet receiving benefits	27
Active employees	<u>35</u>
	<u><u>67</u></u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are with 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contributions rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 4.61% and 5.18% in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2016, were \$75,539, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2015, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2015 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering the 2009 through 2011, and the dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an

adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS. The target allocation and best estimates of arithmetic real rates return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension
	(a)	(b)	(a) - (b)
Balance at 12/31/2014	\$ 2,261,434	\$ 2,435,687	\$(174,253)
Changes for the year:			
Service cost	207,231	-	207,231
Interest	164,060	-	164,060
Difference between expected and actual experience	(4,751)	-	(4,751)
Changes of assumptions	105,326	-	-
Contributions - employer	-	75,539	(75,539)
Contributions - employee	-	116,985	(116,985)
Net investment income	-	3,595	(3,595)
Benefit payments, including refunds of employee contributions	(42,673)	(42,673)	-
Administrative expense	-	(2,189)	2,189
Other changes	-	(109)	109
Net changes	429,193	151,148	278,045
Balance at 12/31/2015	\$ 2,690,627	\$ 2,586,835	\$ 103,792

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) of 1-percentage-higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 561,541	\$ 103,792	\$(267,963)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. The report may be obtained on the Internet at www.tmr.org.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the City recognized pension expense of \$139,473.

At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 24,169
Changes in actuarial assumptions	83,875	-
Difference between projected and actual investment earnings	150,254	-
Contributions subsequent to the measurement date	64,726	-
Total	<u>\$ 298,855</u>	<u>\$ 24,169</u>

\$64,726 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expenses as follows:

Year Ending December 31,	
2017	\$ 53,368
2018	53,368
2019	53,366
2020	49,858
2021	-
Thereafter	-

C. Other Postemployment Benefits (OPEB)

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). Retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions

The City's contributions to the TMRS SDBF for the years ended 2016, 2015, and 2014 were \$1,867, \$1,455, \$1,296, respectively, which equaled the required contributions each year.

D. Health Care Coverage

During the year ended September 30, 2016, employees of the City were covered by a health insurance plan (the “Plan”). The City paid premiums of \$192,847 to the plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the licensed insurer is renewable January 1, and terms of coverage and premium costs are included in the contractual provisions.

E. Commitments and Contingencies

Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for contingencies.

Litigation

The City is subject to certain legal proceedings in the normal course of operations. In the opinion of management, the aggregate liability, if any, with respect to potential legal actions will not materially adversely affect the City’s financial position, results of operations, or cash flows.

Financial Advisory Services
Provided By:

SAMCO CAPITAL MARKETS, INC.